# Analysis - Less Is Still More in Messaging

By Keith Mallinson Saturday, August 1, 2009

**Clearly, SMS has room to grow. What's not so clear is the revenue attached to that growth.**

What's the hottest new messaging service on the Internet? Is it a multimedia bandwidth hog with a rich feature set? No. It's Twitter with a humble capacity of just 140 characters per message – a kind of broadcast SMS.

While demand for mobile broadband grows exponentially, requiring massive investments in the RAN and backhaul, humble SMS remains the mobile data services cash cow. Global SMS volumes and associated revenues will be around three trillion and $75 billion, respectively, this year.

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But what's the outlook for SMS with so many alternative methods of messaging? These have much richer capabilities, lower prices or are free on the back of a data connection. Is SMS saturating with substitution from other messaging services and with price competition in SMS as consumers switch to flat rates or bundles with unlimited offerings by many carriers?

## UNIVERSALITY & SMS

SMS still has enormous scope for volume growth. Whereas person-to-person SMS is widely embraced by youngsters, many others have hardly ever or never texted. The threat of IM and e-mail cannibalizing SMS is overblown. Only SMS is available on 100 percent of phones. No other messaging service reaches more than a small proportion of these. Rather than being cannibalized by other messaging methods, interoperability with SMS will for many years be the most effective means of extending the reach of other messaging systems.

Universality and simplicity also ensure great market potential in significantly untapped opportunities beyond P2P. The primary phone number taken down when ordering goods for delivery is still the residential landline, but this default is changing. If you order a bed or new residential phone line for delivery in the U.K. and submit your mobile phone number when placing the order, it will likely be text alerts that inform and update you on when house calls will be made. This kind of usage is embryonic in the United States, where a voice call is still the default for B2C outreach. In the U.K. and in most nations, but not in the United States or Canada, it is clear from the area code whether a phone is a fixed or mobile number.

As more and more middle aged people succumb to giving out their wireless numbers, they will be dragged into the mobile messaging world with SMS. Teens typically don't like to be heard speaking on the phone with Mom and Dad in the presence of their friends, but to be seen texting is a cool, bilateral and private affair.

## REVENUE OUTLOOK

While there were unanimous expectations for continuing SMS volume growth at the Global Messaging 2009 conference in London recently, there was no consensus at all on whether SMS revenues will continue to deliver significant growth, plateau or decline. For example, IDC research predicts a 20 percent decline in Western Europe over the five years from 2008 to 2013.

Revenue declines are not inevitable. There's sufficient volume and new segment growth to counter price compression in other categories. European price controls for international SMS roaming and give-away pricing strategies by some carriers is eroding the average revenue yield on each

SMS. However, it's down to carriers and their partners to apply some marketing flair to maintain or even increase the high value of important and emotion-driven messages including text voting, alerts and personal messages. If average yields are stabilized, revenues will grow with increasing volumes.

It is increasingly difficult to assess SMS or any other single service in isolation. If unlimited texts are offered in a bundle with voice and mobile Internet, how does one calculate the revenue share or yield per message on SMS? 3UK looks at things differently. Not only does it bundle unlimited texts and Internet with voice buckets in many of its pricing plans, it promotes the adoption of free services Windows Live Messenger, Skype (including free calling among Skype subscribers) and Facebook.

Why does it do this? Skype says customers who use these services have longer tenure, less churn and higher margins. I cannot disagree. I'm an avid Skype user for voice and IM, but I still manage to spend hundreds to thousands – when roaming internationally – each month on telecom services for me and my family, including voice, Internet and with lots of paid-for texts by me and my children.

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