

Rich Communications Suite (RCS) Progress to Date and Market Outlook

Infonetics Research, Inc.
www.infonetics.com

By **DIANE MYERS**

Directing Analyst, Service Provider VoIP and IMS
Infonetics Research, Inc.

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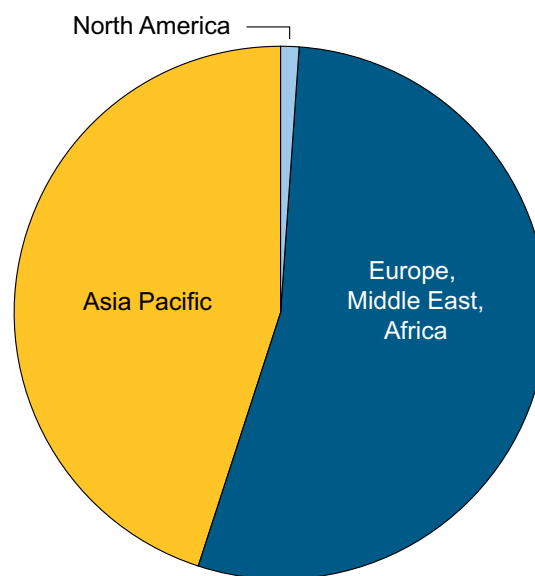
RCS PROGRESS REPORT

The Rich Communications Suite (RCS) initiative, first established in early 2008, will have its first commercial service launch in the first quarter of 2010, when the three French operators—Bouygues Télécom, Orange, and SFR—launch their commercial trial. As of January 2010, all the pieces, except the handsets, are in place and ready to go, including interoperability testing, traffic handoff between networks, and compensation agreements. It has been a long 24 months to get to this point.

In 2010, the first year of RCS availability, we are estimating slightly more than 2 million subscribers. Outside of France, there is additional activity in Western European and Asia Pacific driven in large part by cross-operator collaboration. This coming year will also be a testing ground for business models and application development programs. 2010 will be the make or break year for RCS. It is worth reviewing three basic core strategies of the RCS participants and achievements to date:

- **Achieve interoperability among operators:** This has been a cornerstone among all the key participants in the GSMA initiative, and there has been progress. The French operators are leading the way, in addition to a joint technical interoperability test in Italy between Telecom Italia and Wind in 2009, and upcoming commercial interoperability in Spain and Japan. Additionally, the work and results of interoperability in South Korea (see Case Study on page 3) demonstrate its importance. **Progress grade in this area: "A—"**—clear commitment and results.
- **Leverage operators' main asset of communication services to offer enriched and differentiated services:** With the initial launch of RCS 1.0 in France, there are few enriched or differentiated services; having chat, presence status, and content sharing is not all that exciting. However, most operators invested in RCS understand the true potential comes from using RCS as an underlying set of capabilities to enhance applications and services. A prime example of this is NTT DoCoMo; in its Euro-Labs, it has been working on network-based service innovation on top of the core RCS components. The operator demonstrated these capabilities in September 2009 through an enhanced RCS service, which transforms an image being shared across two users as a watercolor picture. **Progress grade in this area: "B"**—we are not there yet, but operators and third-party developers are working hard.
- **Drive a wide range of compliant devices:** This remains a very important and contentious area for RCS. There is not a single commercially available RCS handset available as of January 2010, but we expect a handful of devices to be available in the next month for the French operators. A wide range of devices is unlikely before 2012. **Progress grade in this area: "C"**—much work remains.

THE NUMBER OF RCS SUBSCRIBERS IS FORECAST TO GROW TO 7.3 MILLION IN 2011



Regional share of RCS subscribers in 2011 (forecast)

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RCS viewed as an evolution—not a revolution—of mobile communications, helps put into perspective the goals of mobile operators and what they hope to achieve. At its heart, RCS evolves the communication experience by putting the network address book (NAB) at the center of all communications to enhance the user experience through rich presence and integrated communication capabilities. Important takeaways for fully understanding the opportunity for RCS include:

- RCS will be deployed over 3G networks with an IMS core.
- Mobile operators need to innovate to grow the market. RCS provides the building blocks to innovate and create differentiation. Differentiation for individual providers will come from layering enhanced applications and providing integration with Internet-based social networking communities.
- As a revenue source, RCS represents a small premium, but it will drive usage (and revenue) of text messaging and data services.
- Growth for most mobile operators has come from increasing the number of subscribers, but this has run its course in many regions where subscriber penetration has maxed out. Growth must now come from services and applications, particularly mobile broadband. RCS is an important part of driving service growth.

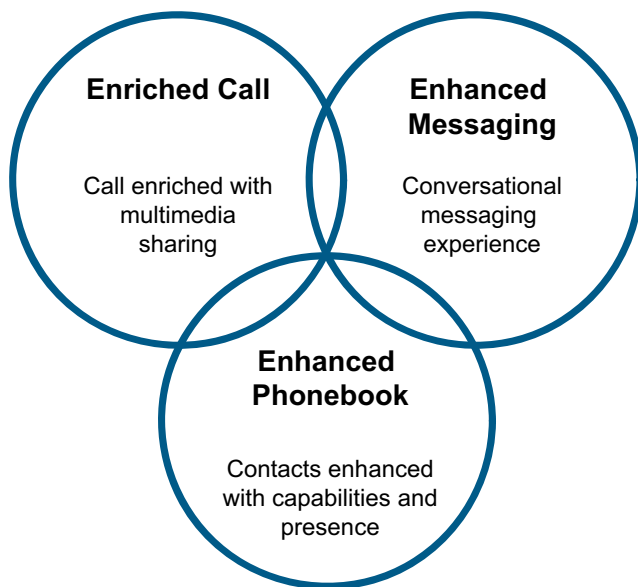
RCS MARKET OVERVIEW

The market for mobile services is highly fragmented, with very different implementations of services from operator to operator. Mobile services are not integrated, which leaves users with a disconnected communications experience (e.g., voice, IM, SMS, and e-mail are distinct from each other). The goals of RCS are aimed at providing a unified communications experience.

The core feature sets of RCS are:

- **Enriched call:** multimedia content sharing (video, image) during a voice call
- **Enhanced messaging:** varied messaging options including multimedia messaging, chat, file transfer
- **Enhanced phonebook:** service capabilities and presence-enhanced contacts in network address book

RCS COMPONENTS



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Though the three core components of RCS illustrate application convergence, the real power is in the services and revenue achievable from that convergence. The operators will generate revenue through increased messaging and data services. Consider how the different capabilities manifest themselves for users:

- **Robust presence:** presence status with RCS is now intelligent and connected to users' address books, allowing them to see the status of their contacts for various forms of messaging, chat, and voice calls; users can set preferences on how they currently wish to be contacted (e.g., "available" for chat, "busy" for voice call)
- **Inspired text messaging:** using the integrated phonebook, users have easy access to names, and voice or video calls can be easily started from within a chat session
- **Easy multimedia messaging:** video and image sharing easily added to chat session; received files easily viewable and stored

- **Group messaging:** buddies for ad hoc group chats are easily identified and selected; scheduled chat availability
- **Web access:** web access and media can be incorporated (e.g., sharing a YouTube video during a chat session), driving data traffic

Having RCS as the native network address book is critical and at the heart of an operator's ability to drive new services and applications. Auto-populating the network address book from existing contacts across multiple sources (e.g., LinkedIn, Facebook, MS Outlook) will provide users easy access to contacts and enable increased communications across multiple media.

KEY STAKEHOLDERS

The primary stakeholders important to ensuring the success of RCS include:

- **Mobile operators:** RCS is key to evolving services and deploying new and converged, revenue-generating services and applications. Currently most operators are under various forms of pressure in terms of pricing, competition from over-the-top application providers, and subscriber saturation and are working to become more than just a communications pipe provider. Operators supporting RCS believe it helps them stay relevant and provides a foundation for service differentiation. Not all mobile operators are convinced of RCS; some, such as Vodafone, are sitting on the fence or developing similar capabilities on their own.
- **Core network vendors:** RCS will be a key driver to begin deployments of IMS in mobile networks. To date, the majority of IMS has been to fixed-line carriers, and mobile operators have been hesitant to adopt IMS due to interoperability issues, lack of IMS devices, and ease of use for converged applications. RCS aims to break down these barriers and is an important element of migrating IMS to mobile networks ahead of LTE.
- **Terminal vendors:** The traditional handset manufacturers, such as Nokia, Sony Ericsson, Motorola, and Samsung, have taken a beating by the Apple iPhone and RIM Blackberry. While the handset manufacturers have taken a wait-and-see approach to RCS, they fully recognize the need to innovate, and as RFPs for RCS handsets have come in from the three operators in France ahead of their commercial trial, they have stepped up efforts to work out issues with the devices. New and improved, standards-based handsets delivered in a timely fashion are pivotal for RCS. Vendors have indicated they will make a wider range of devices RCS-compliant in relation to demand.
- **Application developers:** Most third-party application developers have never heard of RCS or IMS. However, there is an expectation that application development will be the critical component in creating individual operator differentiation and a means of leapfrogging work within the GSMA to bring social networking capabilities to RCS in a more immediate time frame. The application developers that are most active in RCS are those focused on the client application. Their strategy lies in developing a user interface for multiple RCS screens (i.e., mobile phone, netbook/PC tablet, television). To this end, most of these developers are working aggressively with individual operators.

RCS SERVICES

We are in the early planning stages for commercial services and even further out for enhanced applications. The question around RCS services is a challenging one, since it implies something that will be charged for by operators. The near-term service capabilities to be offered by the French operators include presence, mobile IM, and document sharing. Video sharing capabilities have been tested but service deployment plans vary. The three operators' goal is to get interoperable services out the door now rather than wait to complete further testing around future capabilities.

After the launch, we expect the French operators to extend RCS to the fixed-line network via an RCS softclient. There are a growing number of operators successfully deploying an RCS-like client for fixed-line networks as an extension of the mobile network, with full IM and presence capabilities. So there is ample evidence of the fixed-line service offering being successful in reducing churn and driving voice and data plans while also offloading traffic from the mobile network.

There are several options operators can take in pricing RCS-based services. Operator's currently marketing RCS-like services have fees ranging from 0 to 7 euros per month on top of existing service plans. Most operators have indicated they will charge a small premium for RCS capabilities or IM packages. For operators charging for RCS, we anticipate higher premiums as RCS is extended to fixed-line services.

CASE STUDY: SOUTH KOREA

In September 2009, the three large mobile operators in South Korea—KT, LG Telecom, and SK Telecom—announced the deployment of fully interoperable, commercially available RCS-like services. Though not fully matching the GSMA RCS 1.0 specification, the services have many elements of RCS. South Korea is the first country to have commercial services fully interoperable across operators. The following are key details of the largest mobile operator in South Korea, SK Telecom.

- SK Telecom has had an IMS network in place for several years, in which it has deployed enhanced mobile services such as video telephony, video sharing, and instant messaging.
- Its mobile IM service is the heart of its RCS-like service. Initially launched in 2004, SK Telecom did a series of upgrades from 2005 to 2008, ultimately adopting an OMA-compliant IM and presence architecture (which is also the basis adopted for RCS).
- The new presence and IM service launched in 2008 is driven from a client that looks similar to other IM clients and pulls contacts from the native address book. If a user initiates an IM to a buddy that is not an IM user, the message is received as an SMS.
- Prior to interoperability between operators, SK Telecom Mobile Messenger, KT Show Messenger, and LG Telecom OZ Messenger had 150,000 unique users per month and 5.2 million IM messages per month collectively in February 2008. As of September 2009, those figures have jumped to 720,000 unique users and 110 million IM messages. The operators launched interoperable IM in March 2009, but a noticeable increase started occurring in June 2008, with nice increases each month. This is an excellent example of the importance of interoperability between operators for RCS.

- SK Telecom has recognized direct revenue from its IM service. It is able to offer a limited flat rate plan for its Mobile Messenger service at \$5 per month, which is integrated with its SMS/MMS price plan, and the other operators are charging similar rates. The service allows for multimedia transfer and a fixed IM client. With 720,000 unique users, that equates to roughly \$3.6 million in monthly revenue for the three operators. Not a huge amount by some standards, but a starting point to develop enhanced services during a period of flat SMS revenue growth.
- 70% of SK Telecom's Mobile Messenger users are 10–20 years old, and these IM users are triggering complementary services; the operator has seen no cannibalization of SMS.

SK Telecom recognize that interoperability is not enough, and to keep interest in the service, there are a number of market development activities to be pursued, including:

- Co-marketing across operators, specifically running marketing promotions at similar times to increase the overall awareness of mobile IM
- Extending interoperability to video and file transfer and enriched presence capabilities (moving to the full RCS specification)
- Encouraging customer experimentation through a free offer period
- Continuing interworking across operators to discuss future services and creating simple, easy to use capabilities for end-users

LAST WORD

Time is of the essence, with a growing number of alternatives to RCS being offered. Network operators have a small window of opportunity to deploy network-based RCS service capabilities in a unified fashion. There are two prime examples of services similar to RCS being offered today:

- **Fring** is a third-party application, in the market since 2008. It offers a mobile client that brings together all of a user's contacts from leading IM providers, social media sites, Skype, and e-mail, allowing users to have a single consolidated buddy list; they can dynamically interact with all connections and see real-time status updates. The key to applications such as Fring is that the user experience is focused on an easy to use, intuitive, integrated interface. As of November 2009, Fring has been installed on 11% of all iPhones and 9% of active Nokia Symbian devices worldwide. Fring is actively working with operators and is pre-installed on some devices today.
- **Vodafone** is a leading operator going in their own direction, rather than supporting RCS. In 2009, Vodafone launched 360, a new service that bypasses many of the core components of RCS and focuses on social network integration. Vodafone 360 is an integrated address book that consolidates a user's e-mail, phone, and social network contacts into a central interface. It has put a lot of effort into the development of the address book, which offers 3D views of contacts rather than a traditional static-oriented list.

Excerpts taken from Infonetics Research's Rich Communications Suite Services, Devices, and Subscribers Market Size and Forecasts report, published Feb. 5, 2010.



LEAD ANALYST/AUTHOR

Diane Myers

Directing Analyst, Service Provider VoIP and IMS

diane@infonetics.com

+1 (408) 583.3391

twitter.com/dianemyers

Joining Infonetics Research in December 2008, Diane Myers is widely regarded as one of the VoIP industry's top analysts. She brings to Infonetics 14 years of telecom industry analyst and marketing experience, including over 3 years as Strategic Marketing Director for VoIP application software vendor BroadSoft. Diane is a meticulous researcher with expertise in identifying new markets, product positioning, messaging, strategic planning, competitive analysis, and service provider go-to-market strategy. Prior to BroadSoft, Diane was a program manager with Stratecast Partners, where she provided strategic analysis and quantitative assessments of communications services to incumbent service providers and competitive operators. Diane was also a senior manager at FORE Systems (Marconi Communications), where she helped build the Market Intelligence Group, and a senior analyst at In-Stat, NCR, and Eastman Kodak.

Diane now leads Infonetics' Service Provider VoIP and IMS coverage, specializing in VoIP and IMS equipment, hosted VoIP services, residential VoIP, and circuit-to-packet migration products and adoption trends of service providers and end-users. Her focus is to deepen Infonetics' VoIP and IMS equipment and services coverage, and to expand into new areas such as hosted unified communications (UC), SIP trunking, and Rich Communications Suite (RCS).

Diane has extensive conference experience as a panelist, moderator, speaker, and content developer, and is a consultant to startups, service providers, manufacturers, and the investment community, identifying new market opportunities, providing due diligence, and advising on positioning, product development, and business plans.

Diane received her bachelor's degree from Michigan State University and a master's degree from Thunderbird, School of Global Management.

SALES

Larry Howard

Vice President

larry@infonetics.com, tel: +1 408.583.3335 fax: +1 408.583.0031

Scott Coyne

Sr. Account Director - Eastern N. America, Europe, Middle East

scott@infonetics.com, tel: +1 408.583.3395 fax: +1 408.583.0031

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