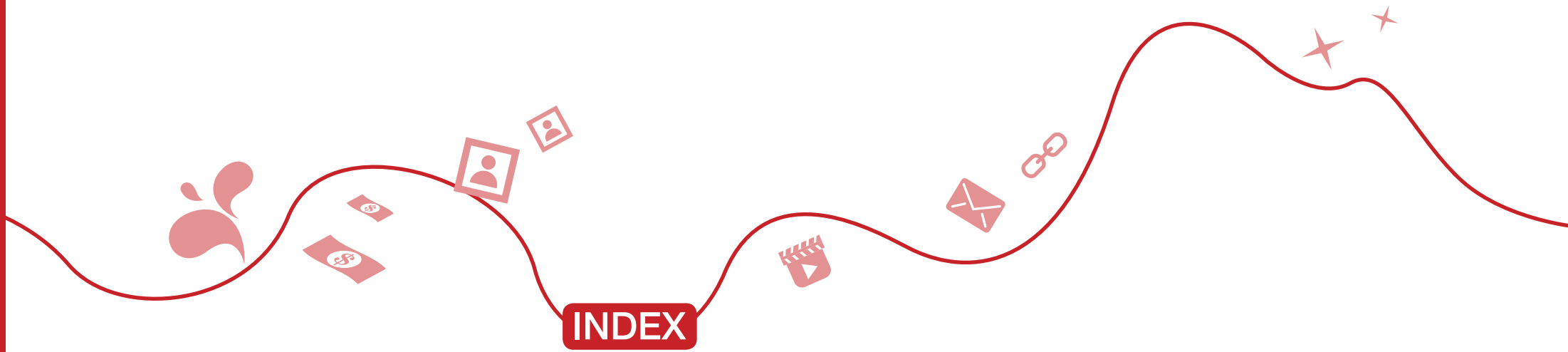


# THE OTT OPPORTUNITY FOR OPERATORS



**silverstreet\***



- 1** /1 INTRODUCTION
- 2** /3 THE OTT TIPPING POINT
- 4** /6 SO WHAT TO DO?
- 7** /8 THE OTT PLAYER'S CHALLENGE

- 9** /10 THE OPERATORS OPPORTUNITY
- 11** /12 HOW CAN SILVERSTREET HELP?
- 13** /13 CONCLUSION
- 14** /14 ABOUT SILVERSTREET

## INTRODUCTION



# WITH OVER-THE-TOP (OTT)

messaging overtaking SMS in 2012, mobile operators need to assess their role in this new communications landscape, and gear up to take advantage of this new dynamic. This white paper looks at how the messaging world has changed in recent months, the options for mobile operators, and the partnerships they need to make to grab this opportunity, stay ahead of the curve, and make money.

## THE OTT TIPPING POINT

# 2012

was the tipping point. It was the year that messages sent via third party applications, such as WhatsApp, finally overtook SMS volumes.

According to data released by research house Informa, around the world 19 billion messages were sent via apps every day, compared to 17.6 billion SMS messages. It forecasts that by

“In 2012 there were 3.5 billion SMS users vs. 586 million users of messaging apps” - *Informa*

the end of next year, 50 billion app-based messages will be sent every day, compared with 21 billion text messages. The Informa data only looks at messages sent via six OTT services: WhatsApp, BlackBerry Messenger, Viber, Nimbuzz, Apple’s iMessage and akaoTalk. Notably it does not include Facebook Messenger, or TenCent’s WeChat, which is approaching 400 million users and growing fast.

It’s worth noting that SMS volumes do continue to grow in the short term, according to Informa. Also, while “free” OTT

“By 2014, 50 billion app-based messages will be sent every day, compared with 21 billion text messages.”

- *Forma*

messages average 32.6 per user per day vs around five SMS per user per day, one can’t assume that every OTT message is a lost SMS – people are undoubtedly sending more OTT messages because they are free. Another pertinent stat from Informa is that the reach of SMS still dwarves that of OTT messaging: in 2012 there were 3.5 billion SMS users

China Mobile's revenues from its short messaging service fell to 46.5 billion Yuan (\$7.46 billion) in 2011 from a peak of 53.6 billion Yuan in 2009. By comparison, its data traffic volume increased by 187 percent year-on-year in 2012.

vs. 586 million users of the messaging apps included in the report.

None of this should be news to mobile network operators. Back in 2011 Dutch carrier KPN issued a profit warning, citing customers' shift to third party messaging apps, particularly WhatsApp. It blamed this trend for an 8.1% drop in first quarter 2011 revenues.

In Asia, China Mobile – the world's largest telco by subscriber numbers – said that it was facing a far stronger challenge from Internet companies than its traditional rivals. The company has, according to the chairman

Xi Guohua, had to adjust its strategy in response to the competition from OTT services. "China Mobile cannot block this trend and must adjust its strategies in order to adapt to the new situation," he said.

China Mobile's revenues from its short messaging service fell to 46.5 billion Yuan (\$7.46 billion) in 2011 from a peak of 53.6 billion Yuan in 2009. By comparison, its data traffic volume increased by 187 percent year-on-year in 2012.

As China Mobile's chairman points out, the ultimate take-away for operators needs to be that OTT messaging is here to stay and is only

going to ramp up faster and faster. Sure SMS is not going anywhere – despite the dramatic headlines journalists love – but the reality is that operators risk being left out in the cold as customers increasingly move their messaging habit to OTT players. Mobile operators need to put a plan in place to avoid being forced into the role of a "dumb pipe" – paying for and providing the infrastructure, but allowing OTT app providers to own the customer and make money in future.

"China Mobile cannot block this [OTT] trend and must adjust its strategies in order to adapt to the new situation"  
– *Chairman, Xi Guohua*

A decorative graphic at the top of the page features a white wavy line on a dark red background. Along the line are several white icons: two person silhouettes in squares, two speech bubbles, an envelope, and a video camera. A small plant icon is at the end of the line on the right. A white rounded rectangle containing the text 'SO WHAT TO DO?' is positioned on the line.

SO WHAT TO DO?

# ANALYSTS

such as AT Kearney take a very defensive line, encouraging operators to “win the OTT war” and describing the rise of OTT services as an “invasion”. “It is time for telecommunication operators to prepare their positions and choose their weapons to win the battles for mobile voice, messaging, media, and cloud services,” says an article written by the consultancy.

AT Kearney’s advice to mobile network operators, specifically when it comes to OTT messaging, is to attempt to reverse the shift from SMS to social networking and instant messaging. The consultancy admits that it is unlikely that this shift can be halted, and suggests that ultimately operators will need to focus solely on enterprise and machine-to-machine (M2M) messaging. In the meantime operators should reduce the shift away from SMS through tiered SMS bundles.

Ultimately the advice from AT Kearney is to “manage retreat, and shift focus”.

“By working together we can make the OTT service perform better on the network. “We can also help to differentiate blended services. We’re already working with a number of operators on this ”

Talmon Marco, CEO of Viber

All very well, but it smacks of trying to hold back the tide. By contrast, at Mobile World Congress in February this year, a far more conciliatory approach was taken. This was the first time the OTT players and mobile operators sat around the table together and discussed co-operating – after all, mobile network operators have very important assets and capabilities the OTT players need access to.

Much was made in the media of OTT service Viber’s CEO, Talmon Marco, breaking ranks and accepting the GSMA’s invitation to the event. He went

on to appear alongside the CEOs of Korea Telecom, Deutsche Telekom and Ericsson at the conference, where he played up the innovativeness of OTT players compared with telcos.

Claiming that innovative services were the reason for consumer take-up of OTT services, rather than cost, Marco said that OTT players had deliberately foregone interoperability for innovation. They could innovate so much better than operators, because they did not need to worry about interoperability or standards.

“By working together we can make the OTT service perform

better on the network. “We can also help to differentiate blended services. We’re already working with a number of operators on this – Talmon Marco, CEO of Viber

At the end of the day it was agreed that telcos and OTT providers could innovate faster if they played together. Marco said that 30% of their future revenue was up for grabs by whoever supplied the billing mechanism for the premium, operator-esque services the OTT players plan on charging for.



"We're definitely prepared to share revenues when we charge users because we need someone to process the billing..."

Talmon Marco, CEO of Viber

# 1st steps

in working together are already taking place, with Viber's partnership with Axis in Indonesia and WhatsApp teaming up with a range of telcos:

- Indonesian operator Axis lets its customers buy a Viber data service rather than a full data plan, as a migration strategy that educates customers about buying data bundles from their mobile provider and allows them to become comfortable doing so.
- Malaysia's DiGi teamed up with WhatsApp to offer unlimited access to WhatsApp for a flat fee.
- 3 Hong Kong also provides access to WhatsApp for a flat rate
- Similarly India's RCom has a similar deal with WhatsApp.



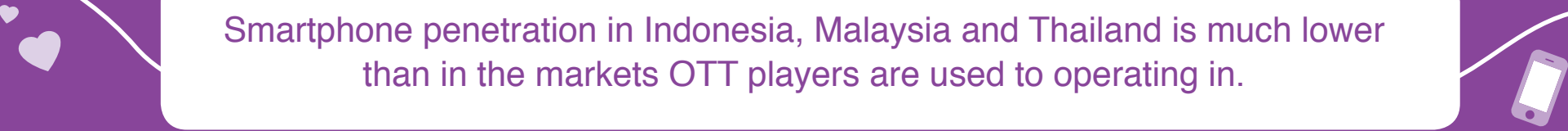


## THE OTT PLAYERS' CHALLENGE

# CHALLENGES FOR OTT PLAYERS EXIST

even though it might be easy to arrive at the conclusion that OTT services are in the pound seats, with telcos on the back foot. After all, as Viber's Marco says: "It will be the OTT vendors that provide [customers] with innovative services, which turns the operator into an ISP – which is not good news." Or, to sum up from the operators' point of view: OTT players take the attitude of "you [telcos] invest [in broadband networks], we take the profit".

But all is not smooth sailing as soon as the services expand out of their home markets, as evidenced by the necessity to partner with local operators to gain traction. What's more, OTT services suddenly find themselves in markets where smartphone penetration is not as high as it is in countries and regions such as Singapore, North America or Western Europe.



Smartphone penetration in Indonesia, Malaysia and Thailand is much lower than in the markets OTT players are used to operating in.

# SMARTPHONE

penetration in key markets according to Google and Ipsos's Our Mobile Planet, as well as the Malaysian Communications and Multimedia Commission (MCMC):

63%

Singapore 2011

44%

USA 2012

28%

Malaysia 2011

17%

Indonesia 2011

28%

Thailand 2011



## THE OPERATORS' OPPORTUNITY

# FIRSTLY,

let's take a look at the China Mobile revenue figures again, as they are very telling.

There are a couple of things going on here - mobile operators are definitely benefitting from the popularity of OTT services thanks to increased data use and resulting income. And typically, once customers start using data plans – often thanks to the viral nature of OTT communication services – they begin using increasing amounts of data as they get familiar with the smartphone application environment.

...while SMS revenue is falling, data revenue is growing at an extraordinary – 187% – rate.

# S

## CONDLY,

in countries such as Indonesia, Malaysia and the Philippines, smartphone uptake still lags feature phone, compared to the countries the OTT services are used to operating in. This means that to a certain extent, the OTT service needs to help its customers, namely smartphone users, connect with the large market of feature phone users. They cannot simply rely on the viral na-

“The operator benefits not only from the increased SMS traffic, but also from the increased data traffic as more smartphones users embrace OTT services.”

- *Simon Landsheer,*  
*CEO of Silverstreet*

ture of OTT messaging services for the app to spread through the customer base and need to bridge the gap to feature phones in order to get significant market penetration.

This is a big opportunity for mobile operators. Unlike smartphones with their ability to run OTT services, feature phones sit firmly in the domain of the operator. And the obvious way to bridge the gap between data-driven OTT services on smartphones and regular telco services in feature phones is SMS. This will allow OTT users to communicate “off-net” with feature phone users, and for feature phone users to reply.

With integration via SMS, the OTT user sees the feature phone users the same way as any other, and suddenly can communicate with 100% of the market rather than selected smartphones.

“The obvious way to bridge the gap between data-driven OTT services on smartphones and regular telco services in feature phones is SMS.”

- *Simon Landsheer,*  
*CEO of Silverstreet*

Feature phone users are no

longer left out in the cold, and get to message, via OTT applications, their smartphone-using friends, family and colleagues.

The operator benefits not only from the increased SMS traffic, but also from the increased data traffic as more smartphones users embrace OTT services. Furthermore, mobile operators don't need to be distracted by launching their own OTT services, risking confusing the market. But, they still get to benefit from the rising OTT services tide.



## HOW CAN SILVERSTREET HELP?

# WILL TELCOS NEED TO BUILD A RELATIONSHIP

with every upstart OTT player that emerges – with no guarantee that they will still be around in a month or two's time?

Does this mean that telcos need to build a relationship with every upstart OTT player that emerges – with no guarantee that they will still be around in a month or two's time? What's more, will operators need to set up special OTT relationship departments to handle these negotiations?

Or, can a value-added service provider, such as Silverstreet, that operators already have a relationship with, play a role here?

Yes. For the same reason that carriers deal with SMS aggregators rather than every individual company wanting to send bulk mobile messages, MNOs should look to a company such as Silverstreet to facilitate the relationship with the OTT players.

# BENEFITS OF USING SILVERSTREET



One relationship with Silverstreet, which then deals with all the OTT players



MNO doesn't need to gear up to handle various different types of OTT companies, with differing requirements



MNO works with a company, Silverstreet, that is used to dealing with carriers and already has relationships with the right people in the right departments



MNO only has to manage a single technical connection that is known and tested thanks to the existing relationship



Silverstreet can act as a filter and bring OTT players to the MNO, streamlining the process



Silverstreet works closely with the industry and has its finger on the pulse of trends, and so can consult with MNOs about the models that work and future trends.



Finally, one of the biggest hurdles to OTT players entering new markets is that they are unsure of the regulatory environment, particularly when it comes to complying with anti-spam regulations. Silverstreet has already solved this for its SMS customers and has the necessary spam filters and compliance in place for each country.



## CONCLUSION

# SAVVY MOBILE OPERATORS

will realize that OTT services are here to stay, and that they have a way to go before maturing. They will also realize that they don't need to go it alone, and that by involving a trusted value-added service provider, such as Silverstreet, they can work with the OTT players in a manageable, predictable and above all, profitable, way.



## ABOUT SILVERSTREET

# SILVERSTREET IS A SPECIALIST

Mobile Messaging (SMS) company, offering global MT termination options over 800+ networks. Our primary focus is on mission critical traffic and high volume (wholesale) clients.

Founded in 1999, Silverstreet is a diversified telecom group with interests in various tele and .com companies. Working with over 3000+ businesses, including mobile service providers and enterprises, Silverstreet's mobile messaging solutions and innovative, highly scalable transaction platform continually provides our clients with unique, reliable and secure solutions.





**silverstreet\***



For more info: <http://www.silverstreet.com/> Ben Chong, Chief Strategy Officer, [ben@silverstreet.com](mailto:ben@silverstreet.com)