



The message is growth

By Direct2 Mobile on behalf of Airwide Solutions



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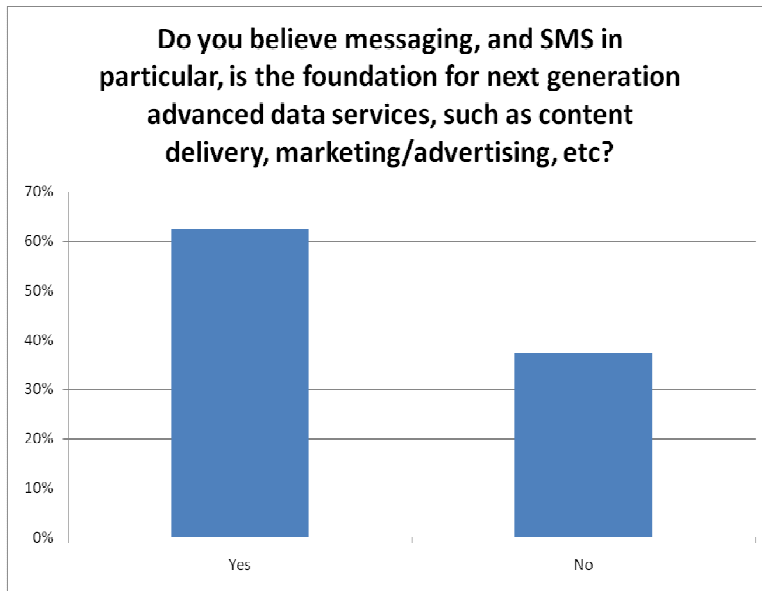
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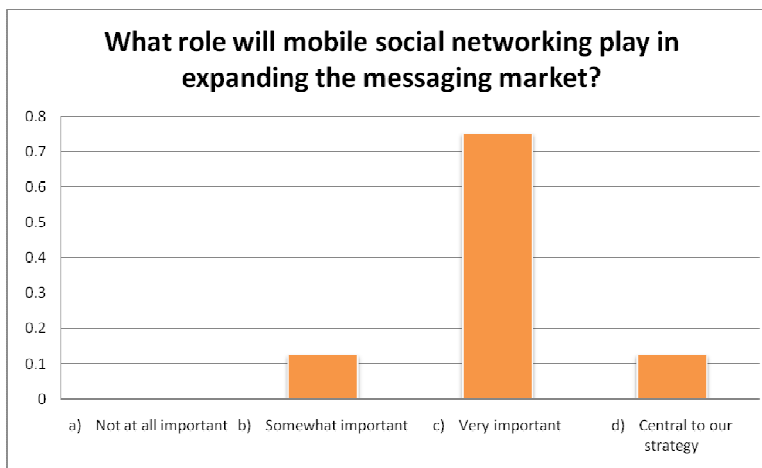
1 The Foundation for Next-Gen Data Services

Almost two-thirds of mobile operators surveyed on the future trends of messaging believe SMS is the foundation for next-generation advanced data services, highlighting mobile social networking as the standout service driving messaging growth. Furthermore, 100% of operators surveyed said they will invest in advanced data services, such as mobile applications, location-based services and mobile broadband over the next 12 months.



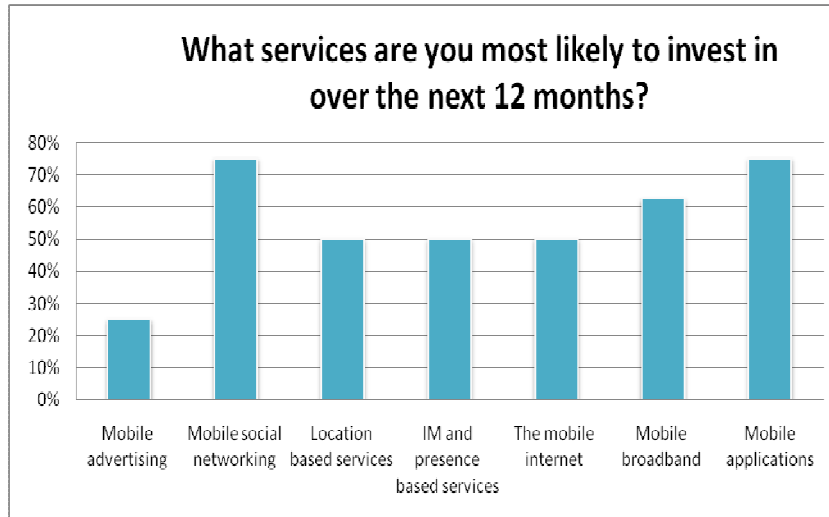
Source: Airwide Solutions

The survey by Airwide Solutions, conducted by Direct2 Mobile in 2009, revealed that three-quarters of operators said mobile social networking will play a “very important” role in expanding the messaging market. A further 12.5% of operators said mobile social networking would be central to their messaging strategy, while the same percentage of operators said the service would only be “somewhat important”.



Source: Airwide Solutions

Not surprisingly then, mobile social networking along with mobile applications will be the two areas operators most expect to invest in over the next 12 months; 75% of operators claim they will invest in these two areas. Following mobile social networking and mobile applications, operators are most likely to invest in mobile broadband (62.5% of operators), followed by location-based services, IM- and presence-based services and the mobile Internet (50% of operators).

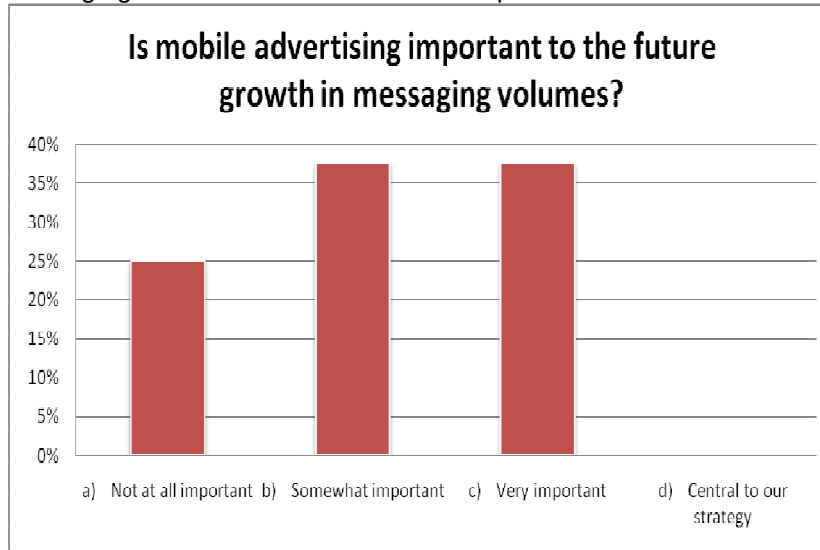


Source: Airwide Solutions

2 The mobile advertising role

Just over one-third of operators believed mobile advertising would play a “very important” role in the future growth of messaging, with 37.5% also expecting the service to play a “somewhat important” role, while 25% of operators said mobile advertising was “not at all important”.

This is surprisingly low given that 50% of operators expect marketing to generate the most revenues for advanced messaging applications, though this does indicate that existing messaging infrastructure will serve the requirements of mobile marketing.



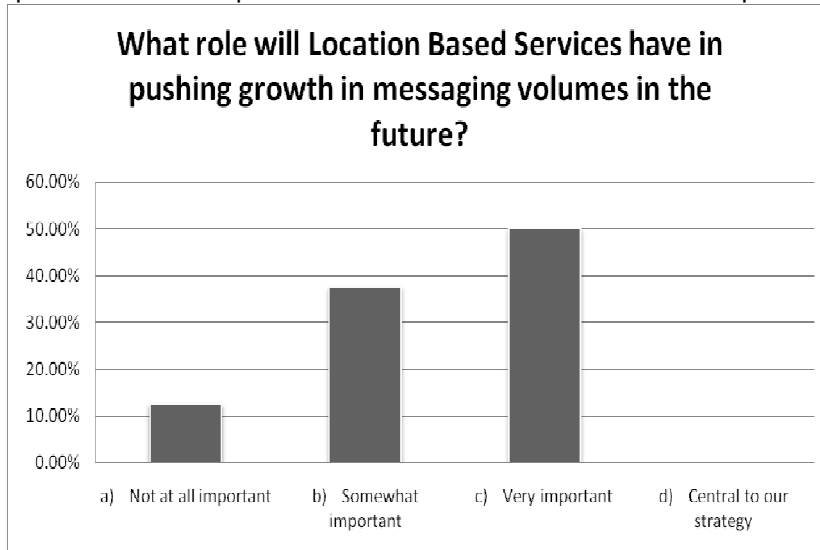
Source: Airwide Solutions

After marketing, operators expect search-based functionality, and then email-like functionality, such as groups, hi/lo importance, reminders, flags, fonts and backgrounds, to provide the greatest revenue-generation opportunities for operators from premium messaging applications.

3 Mobile broadband and location-based services

Some 50% of operators believe mobile broadband will play a very important role in expanding the messaging market. A little over 10% of operators went a step further and said mobile broadband would be central to their strategy of expanding the messaging market. The same number of operators expected mobile broadband to have a “somewhat important” role, with almost a quarter failing to identify a link between the two.

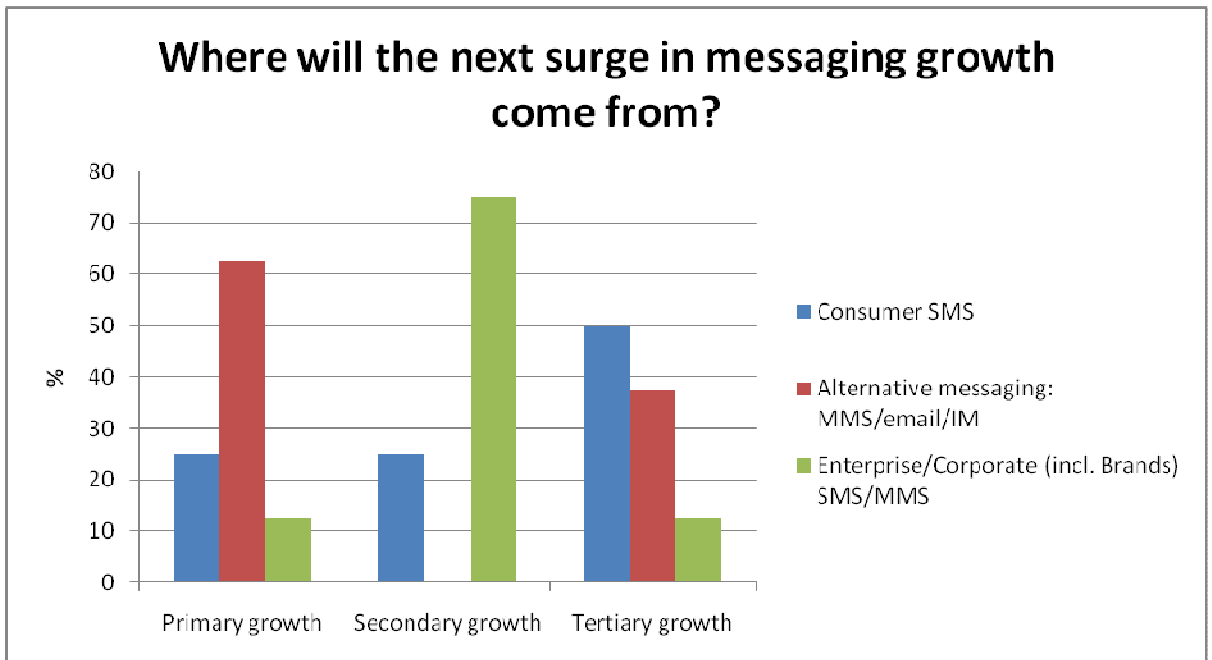
The operator community has higher expectations for location-based services to expand the messaging market than mobile broadband; 50% and 37.5% of operators expect location-based services to play a “very important” and “somewhat important” role, respectively. About 13% of operators did not expect location-based services to have an impact.



Source: Airwide Solutions

4 Alternative forms of messaging growing

When asked to rank the order of importance of each service, 62.5% of the operators expect alternative messaging solutions, such as MMS, email and IM, to be the most important growth driver for messaging. 25% and 12.5% of operators anticipate consumer SMS, and enterprise/brands, respectively, to be the next primary wave of growth in the messaging industry. Interestingly, 75% of operators expect enterprise/brands to play a secondary role in market growth, with consumer growth a tertiary role.



With mobile social networking high on operators' agenda, there is a clear strategy to migrate consumers onto richer messaging services to allow consumers to share their user-generated media with their communities, and therefore generate higher margins. And this is where the enterprise space and marketing has an increasingly defined role in the messaging market in the future.

Not surprisingly, operators are looking to integrate richer messaging services into services such as mobile social networking: 87.5% of operators surveyed said an advanced SMS/IM messaging client integrated with the device's address book featuring presence and location would be part of their service roadmap.

If social networking will enable operators to increase consumer messaging volumes then adding functionality and tighter integration into the user's address book will increase the premium. This vision has led to the commitment by some operators to launching advanced messaging solutions integrating SMS, MMS, mobile email and social networks into a single handset client. This service is supported by advanced presence for mobile IM, and is seen by operators as a key driver for future mobile messaging revenue growth. While third-party solutions are already available in the market, operators are in the position to guarantee ubiquitous deployment and the quality of service that will drive rapid consumer mass market take-up. Airwide calls this "social peer-to-peer" (sp2p) and removes the breakdown of messaging by type with the functions of messaging as a services. This next wave of messaging growth will be complemented by the rapid adoption of the enterprise space and brands utilizing the capability

of messaging to directly connect with their customers. Airwide calls this “brand applications-to-peer” (ba2p).

While sp2p will provide the volume and low margins, ba2p will command the premium rate and higher margins desired by the mobile operators. Who for more than a decade have enjoyed extreme growth in both volume and revenues from mobile messaging.

Income from SMS has become a substantial and strategic revenue stream for most operators. Indeed, the growth in SMS means that today peer-to-peer (p2p) messaging is worth some US\$92 billion to operators globally, according to Informa Telecoms & Media, equating to approximately 13% of the total global mobile industry.

However, recent market changes are placing ever greater pressure on operator’s revenues. Despite sustained growth of SMS volumes in most markets, Average Revenue Per User (ARPU) from voice and text has reached a plateau in the majority of mature markets. This is the result of price pressures brought about by fierce competition between operators. Increasingly operators in saturated markets are bundling unlimited SMS into users’ service plans, which is driving down the cost to the consumer toward zero, and reducing operators’ margins. Other factors such as the global economic downturn and regulatory mandates that restrict roaming costs have increased the pressures on operators’ revenues from core services.

Consequently, operators are seeking to deliver new services that will complement commoditized voice and text services. The ongoing industry debate about what these new revenue-generating services will be is only now emerging, with mobile social networking – as highlighted by the Airwide operator survey – the frontrunner for the majority of mobile operators.

As part of their significant investments in 3G licenses and infrastructure, many operators have looked to aggressively migrate users from second-generation (2G) to third-generation (3G) mobile networks and establish revenues from advanced services such as mobile advertising, games, music and TV. There has been considerable hype about the potential revenue that could be generated by these new services. However, while these services continue to hold much promise, from a consumption perspective they remain niche and from an operators’ perspective they are a considerable distance from delivering the kind of revenues predicted by the leading analyst houses.

Operators have also looked to alternative messaging solutions as potential revenue streams. Despite the stuttering launch for Multimedia Messaging Service (MMS), which has suffered from interoperability issues since its introduction in the market, there has been good growth in some markets for the service. The same is true of mobile email, with the seemingly ubiquitous Blackberry making strong inroads into the corporate market. Similarly, Instant Messaging (IM) has begun to establish a foothold in the market. In total, Informa predicts that alternative messaging revenues streams will be around US\$6.7 billion in 2009 – about seven per cent of the global messaging market, and comparable with the more glamorous advanced data services of mobile entertainment.

5 SMS is dead: Long live SMS

5.1 The forgotten cash cow?

Amid the hype surrounding advanced data services, has SMS become the forgotten cash cow for the mobile industry? Recent industry forecasts from Informa Telecoms & Media, for example, predict that revenues from non-voice data services such as games, TV, imaging and location-based services will continue to be dwarfed by peer-to-peer (p2p) messaging services in the period 2009-2013. While p2p messaging will generate more than US\$130 billion in global revenues by 2013, the total revenue from these other services (excluding data charges from mobile Internet browsing) will be less than half the figure.

These predictions must also be placed into context - SMS is the only area of the wireless market that is perennially under forecast by industry analysts. Despite predictions for negative growth in revenues from messaging, the market has continued to perform, with even mature markets still experiencing growth in revenues of between 5-10%. Moreover, in some markets such as the US, China and India, operators have been experiencing extreme double-digit growth in volumes for SMS. The result is that SMS is set to remain 'King' for years to come and increasingly more central to the strategy of many mobile operators. The market for messaging is breaking out from the constraints of 160 characters as operators begin to look at ways in which their investments in mobile messaging infrastructure can help them introduce Value-Added Services (VAS) into the market. This investment will help drive up both messaging volumes and revenues as the market continues to mature.

5.2 Industry ripe for VAS business models

Research conducted on a global scale by Airwide Solutions of mobile operators' mobile messaging strategy has highlighted that the industry is now seeking to establish effective business models for VAS. Airwide believes that VAS will sustain the continued growth both of volumes and revenues from messaging, first in the consumer market –supplemented by a richer media experience - and then significantly in the enterprise market.

Despite the hype surrounding advanced mobile services, and the early promise of mobile email and IM, it is SMS that will remain the backbone of VAS because of ubiquitous network coverage and universal handset interoperability. SMS will form the enabler for many advanced services that operators are introducing into the market. For example, SMS is already at the heart of the growth of mobile content and services via WAP push and premium SMS billing. SMS is also set to become the enabler that underpins next-generation advanced data service through the amalgamation of advanced platforms – VAS management. Infrastructure investments in VAS management platforms, for example, will enable operators to meet the increasingly more demanding needs of the advanced data services market. These advanced platforms are required to deliver operators flexibility and reliability in their messaging infrastructure for both future capacity needs and the seamless development of services.

5.3 Driving A2P, P2A and P2P volumes

According to Airwide's research, social networking is seen by most operators as the key driver of both p2p and application-to-person (a2p) and person-to-application (p2a) consumer messaging volumes. Operators are keen to capitalize on the success of social networking and ensure that SMS is the primary conduit for swapping messages and delivering status updates on both mobile and fixed-Internet social networking sites. Indeed, consumers are already

becoming accustomed to making status updates to various social networking sites via SMS, as well as via their WAP browser on the mobile Internet. It is the speed, convenience, ubiquity and value-for-money of this approach that is compelling to the consumer market. Moreover, as operators enable social networks sites to automatically deliver updates via SMS, a2p messaging volumes are set to rapidly increase.

If social networking will enable operators to increase consumer messaging volumes then adding functionality and tighter integration into the user's address book will increase the premium. This vision has led to the commitment by some operators to launching advanced messaging solutions, which integrate SMS, MMS, mobile email and social networks into a single handset client. This service is supported by advanced presence for mobile IM, and is seen by operators as a key driver for future mobile messaging revenue growth. While third-party solutions are already available in the market, operators are in the position to guarantee ubiquitous deployment and the quality of service that will drive rapid consumer mass market take-up.

Additional SMS functionality is also being added via 'messaging+'-type services, which enable users to change fonts and add colours into their messages to make them more visually appealing. This has proven to be particularly popular in markets such as the Philippines, which continues to be a messaging powerhouse. The richer SMS-based messaging experience is the ideal enabler to encourage users to migrate toward MMS. Email-like functionality for SMS is being extended to include storage and out-of-office services. This has proved to be particularly popular amongst audiences who are prone to international roaming.

5.4 The enterprise and 'five nines'

The second phase of SMS growth will come from the enterprise market. This growth will come from corporate and enterprise, brands, banks and utilities as operators' investment in new infrastructure opens up their platforms and enables an array of new services. Investment will also deliver the better than 99.999% - 'five nines' - reliability that is key to growth in the corporate market.

The enterprise messaging market is also set to expand through communication that will evolve brand awareness campaigns to include direct connection with consumers as a service. Airlines, for example, will be able to communicate with their passengers about delays or changes to their services. In some markets airlines are exploring the provision of ticket reference numbers and boarding passes via SMS. Similarly, motoring organisations will be able to update their customers directly about traffic conditions in real time without the consumer having to rely on SatNav or WAP browsing. Another area many operators predict rapid growth coming from is the banking sector. While user requested information such as basic account balances or unusual transactions is currently sent out via SMS by many banks, more advanced services will only be enabled by greater reliability. The mobile messaging infrastructure currently deployed by many operators provides for five nines reliability but this needs to improve for the banking sector to embrace messaging. In the provision of information can be business critical, and the potential loss of millions of messages has held back the sector from embracing mobile messaging as a communications medium.

6 Conclusion

It is Airwide's conclusion that the messaging space is now being primed for the next explosive growth driven by rich-media messaging and rich-media services like social networking. SMS remains the foundation upon which advanced data services, such as content delivery and mobile advertising, will function, but this is creating the opportunity for mobile operators to expand the market and their messaging-based margins. Messaging+ services, incorporating email-like functionality, and MMS in particular will migrate existing SMS users onto higher-value applications. This will be supplemented by the rapid adoption of premium messaging services by the enterprise/corporate and brands as they look to create a direct connection with their customers. It is Airwide's belief that social peer-to-peer (sp2p) and business applications-to-peer (ba2p) messaging removes the distinction between messaging types in the messaging 2.0 environment and drives operator revenues.