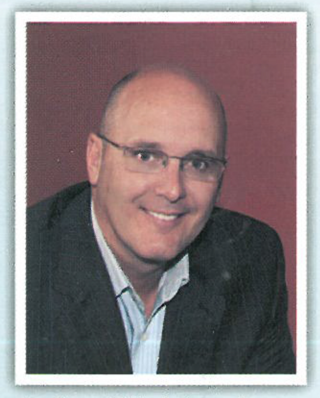
Strategies for Winning the OTT battle: How RCS gives Operators the Edge



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With Over-The-Top (OTT) applications like WhatsApp and BlackBerry Messenger posing a significant threat to operators' legacy messaging services, the need for mobile network operators to fight back is essential. But what is the best strategy? Operators' responses have ranged from taking a wait-and-see approach to launching OTT-like services in an effort to compete. With IP-based communication options more prevalent than ever, a growing number of operators are turning to Rich Communication Services (RCS)—known by the brand name "joyn"—to maintain subscriber loyalty and squash competition from OTT services.

The Appeal of OTTs

Several factors make OTT options particularly attractive to Caribbean mobile subscribers. Offering advanced features like group chat, video chat, and file sharing, OTTs give subscribers new, innovative options that are unavailable with traditional texting technology. Better yet, these services are typically free.

Growing smartphone use in the Caribbean region is also prompting greater OTT use. According to the GSMA's Latin American Mobile Observatory 2011, penetration is expected to increase from 9% in 2010 to 33% in 2014. It notes that Latin America has been following the trend of smartphone growth in the United States, suggesting that by 2018, penetration could reach close to 60%.

Availability of lower priced handset models is largely responsible for greater smartphone adoption throughout Latin America. Shipments of devices costing less than US$250 will grow from 259 million in 2013 to 788 million in 2018, according to ABI Research.

The price of legacy messaging services is another key factor impacting the popularity of OTTs. In areas where the price of texting is high, particularly relative to the price of voice service, the average number of SMS per person per month is lower than in other countries. This is the case in much of Latin America, according to Portio Research, where the average usage in the region was only 69 SMS per person per month in 2011. In contrast, in the United States, low SMS prices and unlimited plans have caused subscribers to embrace texting, resulting in an average monthly usage rate of 617 messages per person per month, almost nine times that of Latin America. OTT messaging applications are typically free or have a modest annual fee, making them an economical alternative to texting for price-sensitive Caribbean customers.

Responding to the OTT Threat

Operators can address the impact of OTT services in several ways.

1. ***Wait and See:*** Given the rapid pace at which the industry is evolving, some operators are choosing to maintain their existing voice and messaging services, ignoring the IP space at present. Meanwhile, however, OTT apps continue to gain subscribers. WhatsApp, for example, now has more than 200 million monthly active users generating an average of 8 billion inbound and 12 billion outbound messages each day. With operators projected to lose US$54 billion in SMS revenue to OTT players by 2016, according to Ovum, choosing not to address this competitive threat could have a dramatic impact on operators' revenues.

2. ***Launch an OTT-like service:*** Several operators have developed their own OTT-like apps that can compete on a feature basis with other third-party services. Examples include Orange's Libon, T-Mobile USA's Bobsled, and Telefonica's Tu Me. These operator-provided apps may have an advantage over OTT services in that they provide telco-grade quality of service and security, and they promote subscriber loyalty to the operators' brand. However, this approach suffers from the same limitation of OTT players in that OTT-like services operate in closed communities. This means that subscribers can only communicate with other users of the same service, limiting the potential for growth.

3. ***Introduce RCS:*** As the consumer-facing brand of the GSMA's RCS solution, RCS has been launched in Spain, Germany, South Korea, and the United States, and it is continuing to gain traction worldwide. In fact, the GSMA reports that 31 operators have launched or have committed to launching RCS, and operators throughout the world are currently evaluating the service and conducting trials.

   Introducing RCS gives operators several important advantages over an OTT-like service. This standards-based solution offers backward compatibility with SMS and MMS. As a result, RCS subscribers can communicate with mobile users even if they do not have the RCS service on their device. Also, because it is integrated with the user's address book, subscribers do not have to manually add existing contacts to their RCS address book.

In addition, like traditional texting, RCS users do not need to share the same operator or operating system. This gives RCS the potential for universal reach, unlike OTT services or operator-provided OTT-like apps, which operate in closed communities where only those who have downloaded and signed into the service can communicate. Recognizing this limitation, operators who were quick to launch OTT-like services as a competitive response are now announcing the compatibility of their service with RCS. For example, Orange has announced that its Libon app will be RCS compatible by the end of 2013.

RCS is also backed by device manufacturers. Several operators have already launched RCS-embedded handsets, and nearly all leading OEMs have committed to doing so. Meanwhile, downloadable clients are available.

In addition, because hosted RCS solutions are available that do not require operators to have an IMS core, operators can introduce the service immediately on 4G or earlier generation networks without the need for costly network changes.

Though operators have several options for responding to the obvious threat of OTT services, launching RCS provides a strategy for remaining relevant by delivering enhanced communication features to subscribers. RCS offers the advantages of simplicity, universal reach, and telco-grade quality of service, characteristics that give it an important edge in today's increasingly competitive communications market.