

## SMS on the decline as third-party messaging gains traction

Dutch users send 200M fewer text messages in 1H 2011; non-SMS data generating more revenue

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The increasing popularity of third-party messaging apps such as WhatsApp, BlackBerry Messenger (BBM) and Skype is beginning to eat into the SMS volumes of operators in mature markets.

The trend is highlighted in new figures from the Dutch telecoms regulator, OPTA, which shows a significant decline in the number of SMS sent in the Netherlands in 1H 2011 compared to the previous six-month period. The country's largest operator, KPN, has also reported declining year-on-year messaging volumes over the last few quarters due to what it calls "changing customer behaviour."

Wireless Intelligence has also identified falls in SMS volumes over the same period in markets such as France, Ireland, Spain and Portugal.

According to OPTA, the total number of SMS sent in the Netherlands stood at 5.7 billion for the first six months of the year, down 2.5 percent from 5.9 billion in 2H 2010, even though total SMS revenue rose slightly (0.6 percent) to EUR378 million during the period.

This means that, for the first time, non-SMS data is now a more important segment for local operators than traditional messaging - in terms of both revenue and volume. Total data revenue grew 16 percent over the period to EUR405 million, surpassing SMS revenue. In terms of volume (using a base measure of 1MB of data versus one SMS), data is now also larger than SMS, growing 24 percent to 5.9 billion (megabytes) in 1H 2011.

It is not known how much of the rise in data volumes in the Netherlands relates to third-party messaging traffic but it has been highlighted as a major trend this year at KPN. "The increase in usage of communication apps and free Wi-Fi spots continued to spur significantly rising data usage," the firm said in its latest quarterly earnings statement.

KPN first acknowledged the trend in Q1 at its youth-focused Hi mobile brand but noted that it had also become visible at its mainstream KPN brand by the third quarter. Outgoing SMS per customer decreased by 24 percent year-on-year in the Hi brand in Q3, and by 5 percent year-on-year in the KPN brand. According to Wireless Intelligence estimates, the average number of SMS sent per user at KPN declined from 49 in Q3 2010 to 32 in Q3 2011.

Lower SMS usage was also cited as a key factor behind an 11 percent decline in mobile service revenue at the operator in Q3, to EUR395 million. Some 4 percent of this shortfall was attributed to "changing customer behaviour." Regulatory factors (3.8 percent impact) and decreasing prepaid revenue (3 percent) were also blamed. KPN's mobile ARPU declined only slightly year-on-year to EUR24 (from EUR25); but non-voice revenue now accounts for 39 percent of the ARPU figure, up from 36 percent a year ago.

As a short term solution, KPN has sought to "up-scale" high-value customers to new contracts and claimed that 35 percent of targeted customers to date had adjusted their contracts in order

to lower their "out of bundle" exposure. It also launched new contracts in September claiming to offer "integrated data, voice and SMS propositions" which are priced based on quantity, speed and service. But the recently introduced net neutrality laws in the Netherlands prevent the operator from specifically charging for third-party messaging.

The situation is less clear at KPN's two regional competitors, second-placed Vodafone and number-three T-Mobile. For the quarter to end-June, Vodafone reported a 0.5 percent year-on-year increase in Dutch mobile service revenue to GBP422 million (EUR484 million). But growth slowed from the previous quarter, which the firm partly blamed on "lower messaging revenue growth rates and price competition."

Deutsche Telekom-owned T-Mobile reported a 6.8 percent year-on-year decline in mobile service revenue at its Dutch unit in Q2 to EUR357 million. However, it noted that SMS revenue had grown 8 percent over the period and claimed it was seeing no "IP-cannibalisation effect" in its messaging business. Non-voice revenue accounted for 34 percent of T-Mobile's ARPU in Q2, up 6 percentage points from a year ago.

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SMS has been a cash cow for mobile operators for many years but there are clear signs in mature markets such as Western Europe that volumes are in decline, and revenues will soon follow suit. This phenomenon is directly linked to the popularity of third-party messaging apps triggered by rising smartphone penetration. Whatsapp announced this week it is now delivering one billion messages a day, while new high-profile messaging services such as Apple's iMessage and Facebook's Messenger will accelerate the trends we are seeing. KPN in the Netherlands therefore serves as an example for many operators that will soon be facing the same problem. KPN's efforts to levy charges on such third-party services hastened the introduction of net neutrality laws in the country - making the Netherlands the first European country to pass such legislation. With that option off the table, KPN has subsequently focused on a wide-ranging overhaul of its tariff structure aimed at migrating high-value customers to more expensive plans. While SMS forms part of these propositions, the need to appropriately monetise mobile data is of greater concern. With non-SMS data now generating more revenue than messaging in the country, it is essential that local operators are able to maximise profits from the former segment while effectively managing decline in the latter.

	2H 2010	1H 2011	HY growth
Connections (thousand)			
Total	20,627	21,277	3.2%
Contract	9,983	10,421	4.4%
Prepaid	6,357	6,423	1.0%
Wholesale (MVNO)	2,839	2,805	-1.2%
Data-only	255	533	109.0%
M2M	736	861	17.0%
HY revenue (EUR million)			
Total	2,462	2,544	3.3%
Voice	1,702	1,733	1.8%
SMS	376	378	0.6%

Data	349	405	16.0%
Other	35	27	-21.6%
HY volumes (million)			
Voice (minutes)	11,278	11,541	2.3%
SMS	5,882	5,737	-2.5%
Data (MB)	4,726	5,876	24.3%

### **Netherlands mobile connections, revenue and volumes, 1H 2011**

*Source: Wireless Intelligence, OPTA Netherlands*

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