

Over-the-top phone services

Joyn them or join them

Mobile operators are trying both to repel and to imitate invaders

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THE rise of the smartphone has been a mixed blessing for operators of mobile networks. People have been pleasingly eager to buy smartphones and to clock up data charges by playing games, watching videos and dawdling on social networks, as well as to make calls and send text messages. Yet smartphones have also opened the door to disruptive newcomers. Suppliers of “over the top”

(OTT, or “value added”) services have been pinching the network operators’ customers by offering messaging and voice-over-internet-protocol (VOIP) calls via smartphone apps.

OTT services can take many forms, but voice and message apps have been the operators’ biggest headache. Rather than pay for an SMS message or a phone call, people may use Skype (bought by Microsoft last year), WhatsApp (brainchild of two alumni of Yahoo!), Rebtel (a Swedish start-up), Viber, Voxer or some other upstart to send messages and videos or make VOIP calls for nothing. They may still incur data charges but with Wi-Fi access may avoid even those. Ovum, a consultancy, has estimated that OTT messaging cost operators \$13.9 billion, or 9% of message revenue, last year.

For operators that do not react quickly, worse may follow. In a recent paper, “Operator’s Dilemma”, Chetan Sharma, a consultant, identifies four “waves” of revenue for the mobile industry. The first, voice, is declining in most rich countries; in many markets the second, messaging, is waning too; the third, access to data, may peak in three or four years.

The fourth wave comprises a huge range of OTT services. Mr Sharma points to dozens, from health-care apps to billing services. Operators, he says, will have to strive to provide these—competing not only with each other and with start-ups but also with the giants of the internet. Those that cannot will be reduced to mere utilities, with much thinner margins.



The immediate worry, though, is the erosion of revenue from voice and (especially) messaging. Although the penetration of smartphones makes operators more vulnerable, says Stephen Sale of Analysys Mason, a research firm, prices are also important: firms that rely on costly calls and texts beyond the amounts bundled into users' contracts are more at risk.

In Europe Dutch, Spanish and Swiss operators are most vulnerable. A year ago KPN of the Netherlands was pushed into a profit warning. Operators have also been weighed down by the continent's economic ills. In the second quarter of 2012, KPN's revenues from Dutch consumer-mobile services were 9.4% lower than a year before. Flat revenue and falling profits in the first half of 2012 caused Spain's Telefónica to cancel its dividend.

Operators can respond in four ways. First, they can block the interlopers, if regulators let them. Last month South Korea's telecoms watchdog said that the country's three network operators could restrict access to mobile VOIP. About half of South Koreans have smartphones and almost all of those use KakaoTalk, a messaging app that has wrecked the operators' SMS businesses. When KakaoTalk introduced a voice service in June, the incumbents feared the worst. However, the regulator's decision is unpopular and may not last long, especially in an election year.

Second, they can adjust their pricing to make OTT services less attractive, either by charging more for rival services that piggyback on their networks or by making their own cheaper. In April Yoigo, a Spanish operator controlled by Sweden's TeliaSonera, introduced charges for mobile VOIP (although it is still free in several packages). TeliaSonera has similar plans for Sweden.

KPN has introduced unlimited texts for Hi, a brand aimed at young people, which it hopes will help to stop the rot. AT&T and Verizon Wireless, America's two biggest operators, have lately introduced new pricing plans partly aimed at seeing off OTT voice and message raiders—though both have been less troubled by them than their European and Asian counterparts.

Third, the GSMA (the mobile operators' industry body) is promoting a collective response, formally titled Rich Communication Suite-enhanced (RCS-e) but marketed more snappily as "joyn". At first joyn will offer messaging, "rich" calls allowing simultaneous sending of pictures and video, and file-sharing. Eventually, hopes the GSMA, it will be a base for other services.



Joyn's selling point is that it will be built into phones and thus available automatically across networks. So there will be no need to install an app and no need to check that your friends have too. Joyn's slogan is: "It's just there, it just works."

It isn't there yet. Joyn is so far available only in Spain, although it is due to be launched in Germany in October and South Korean operators and others are expected to start RCS-e services soon. It will spread gradually, as people replace their phones with joyned-up devices, which should be on sale before long. All the leading handset-makers have agreed to embed joyn—with a big exception: Apple, which happens to be an OTT provider too.

Meanwhile, the clock is ticking. Operators' fourth option is to provide OTT services themselves. Telefónica is the keenest—although, hedging its bets, it is also backing joyn. In May Telefónica Digital, a subsidiary, begat TU Me, a message, VOIP and photo-sharing app that has 600,000 users so far. Its biggest market is Spain, but its second and third are India and America, where Telefónica is not present. Telefónica seems wise to the operators' dilemma. It may cannibalise its core business but at least it will keep its customers. And it may snaffle some from other operators, too.

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