

Chat apps will disrupt global telecoms sector

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The recent purchase of WhatsApp by Facebook for 19 billion dollars signified a new milestone in the evolution of the mobile internet as a technology platform. In just over four years, WhatsApp has grown to half the size of Facebook and has rattled the 120-billion-dollar SMS (texting) market. Not only is the new chat application (app) perceived as a threat to Facebook's dominance as the leading social networking platform, which accounts for the extremely high valuation, but also it will have a highly disruptive impact on the telecoms sector.

What next

Erosion of telecoms revenues is likely to continue as WhatsApp plans to offer voice calls. Telecoms operators would be able to monetise the traffic generated by WhatsApp and other chat apps by encouraging users to move to structured data plans and developing their own ecosystem of mobile applications. However, they will be inhibited by high fixed asset costs and regulatory restrictions, and lack of track record or capabilities in software innovation.

Analysis

The impact of Skype and other VoIP services on fixed-line telephony revenues has been substantial, but somewhat mitigated by the reliance of consumers on fixed-line infrastructure for broadband provision.

As computing moves from personal computers (PCs) onto mobile devices such as smart phones and tablets, the chat app has emerged as a highly disruptive technology. A key factor behind the success of companies such as WhatsApp has been the enormous reach of the mobile internet, which has made it possible to access far larger audiences than via PCs. The fact that 75% of all Facebook users now access the site from mobile devices reinforces this point.

The convenience of accessing the internet via a lightweight mobile app instead of navigating a full-featured website has also been a key factor in the declining popularity of web-based PCs. In future, increased mobile ownership will consolidate this trend as the number of smart phones in use is set to head towards 2 billion (see PROSPECTS 2014: Cyber trends - November 26, 2013).

Creative destruction

RIM's Blackberry focused Messenger app (BBM) made SMS irrelevant to Blackberry users using text chat with one another, first among corporate users, but then among cost-sensitive chat aficionados, particularly teenagers, driving RIM's growth in the youth market. Other platform-focused chat apps soon followed. Yet it took cross-platform text apps such as WhatsApp to rewrite the rules of SMS text messaging and undermined revenues previously earned by telecoms operators from this source. The total value of messages sent by WhatsApp users is equal to the value of the SMS market. RIM have based their rescue plan significantly on the success of BBM as the go-to corporate cross-platform chat app.

Impact

- Increased mobile ownership will consolidate the trend of smart phones being used to access social media.
- WhatsApp may offset maturity by increasing its range of services and applications in the medium to long term.
- Assuming no disruptions, WhatsApp subscriber base could reach 1 billion users within the next few years.

\$120bn

Value of the SMS market in
2012

This erosion of telecoms revenues is likely to continue as WhatsApp plans to offer voice calls to its 465 million users. The new service will be offered on the same low cost basis as WhatsApp's messaging platform and may wipe as much as 365 billion dollars from the revenues of mobile carriers in the next four years. It will be available via networks of the companies whose revenues are being directly affected.

Asian business model

The revenues lost to WhatsApp, though valuable, relate to the lower-margin segment of the telecoms market. The real value is in media, social networking and e-commerce, where data-intensive transactions are involved. However, Asian chat app companies such as Kakao (South Korea), Line (Japan) and WeChat (China), which provide social networking platforms as well as mobile messaging, are now usurping this space.

WeChat has 270 million active users and is used in South East Asia, Russia, India, Japan and South Korea. It started as a messaging service similar to WhatsApp but has now moved into online payments, banking and wealth management services. WeChat developers are now working on e-commerce capabilities, though the bulk of revenues (85%) is attributed to sales of virtual products.

Facebook may either allow WhatsApp to maintain its current business model or it may aim to expand the portfolio of services to match Asian competitors. Although the parent company may be happy to let WhatsApp maintain its existing business model and grow through increasing the size of its user base, the aim to raise revenues by widening the range of services and applications may dominate in the longer term.

Telecoms future

Telecoms operators would still be able to monetise the traffic generated by WhatsApp and other chat apps by encouraging users to move to structured data plans. This would mean moving customers to tariffs based around data rather than voice and SMS. A data plan refers to the amount of data (normally measured in megabits or megabytes) that can be sent to the smart phone, mobile phone or tablet based on the contract with the service provider. This could be an unlimited-use plan or based on the actual amount of data transferred.

Structured data plans may
become more prevalent

Telecoms operators will also need to develop their own ecosystem of mobile applications in order to try and compete with the current leading providers. In the hyper-competitive world of technology, new apps are already emerging that could disrupt WhatsApp's business model. Apps such as CalPal let users send messages from inside their calendars as people move towards communicating from within apps. This type of functionality will become more important in the future as convenience and speed become paramount. Cash-strapped telecoms operators are not in a position to make multi-billion dollar acquisitions nor do they have any track record or capabilities in radical software innovation.

Further pressure is also likely to come from new technology start-ups. With the rise of the mobile app stores, viral social networks and new low cost ways of building technology companies, barriers to entry in the mobile internet business have collapsed leading to an increased number of disruptive players. On the other hand, high fixed asset costs and regulatory restrictions in Europe inhibit the legacy telecoms carriers (see EU: Weakness in internet debate risks 'splinternet' - February 17, 2014), reducing further their chances of competing with the asset-light entrepreneurial technology companies resulting in a spiral of declining revenues.