The application-to-person messaging market will grow, but operators may only benefit in the short term

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The business spend on application-to-person (A2P) messaging worldwide will grow from USD27 billion in 2019 to USD40 billion in 2024 because the demand for A2P messaging services is steadily increasing in all regions. SMS has historically been the main channel for A2P messaging traffic and enterprise spend, but its market share will decrease in the coming years due to the rise of OTT communication apps as A2P messaging channels, the roll-out of rich communication services (RCS) and businesses' demand for omni-channel A2P messaging solutions. This comment analyses the impact of the emerging trends in the A2P messaging landscape and outlines the reasons why OTT apps might be able to marginalise RCS in all but a few countries based on the results of Analysys Mason's Application-to-person messaging: worldwide trends and forecasts 2019–2024.

Businesses will spend USD40 billion on A2P messaging by 2024

Businesses worldwide are becoming more reliant on using messaging solutions to communicate directly with their customer bases. Sending messages through SMS, apps, websites, OTT communications and social media services is a cheap, effective and efficient means of confirming transactions, communicating promotions and resolving simple customer service enquiries. The A2P messaging market is therefore growing strongly in terms of traffic and enterprise spend in all global regions and across all its components.

- **SMS.** This includes circuit-switched SMS/MMS messages that are generated and terminated on operators' networks.
- **Operator IP.** This includes A2P traffic and spending from operator-provided IP-based services, mainly RCS business messaging.
- **OTT/non-operator IP.** This includes IP-based messages sent using communications apps such as Facebook Messenger, WhatsApp and WeChat.
- **Fixed fees.** This includes all of the services that are related to A2P messaging and are billed outside the traditional pay-per-transaction model.[1]

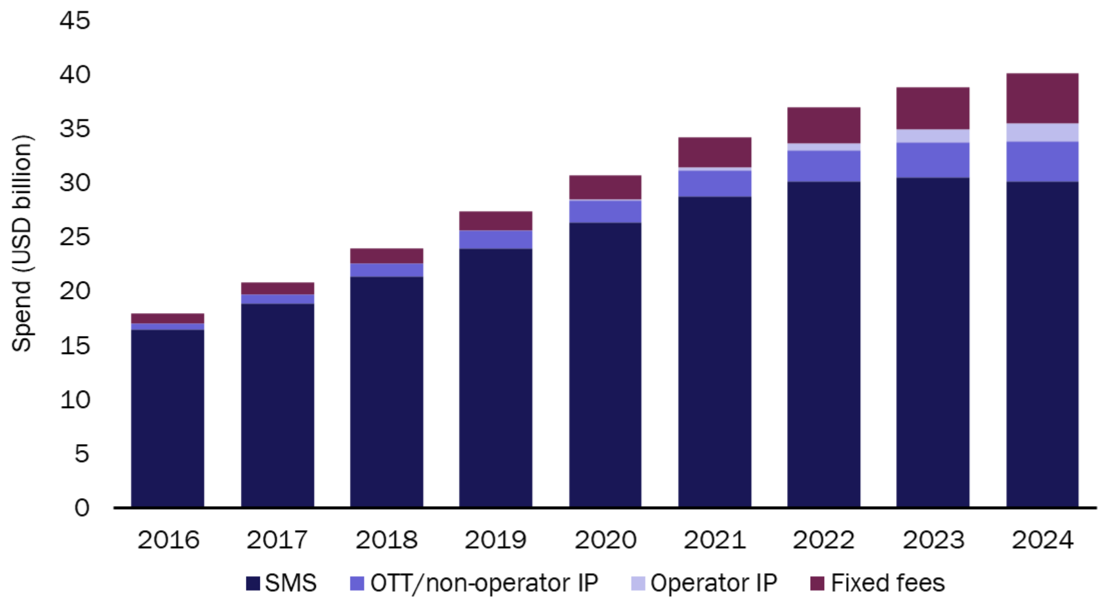
SMS is, and will remain, the dominant A2P channel due to its unmatched universal reach, high read rate (higher than that for any other channel), security and spam protection filters. SMS accounted for 88% of the enterprise A2P spend and 83% of the A2P traffic in 2019, but these figures will fall to 75% and 60%, respectively, by 2024 (Figure 1).[2] The largest share of the growth in enterprise A2P spend will be captured by the non-SMS elements of the A2P messaging market (+USD6.1 billion for SMS and +USD6.6 billion for the other elements

1 These include short, alfa-numeric and long codes, monthly fees for a CPaaS platform, number look-up services and intelligence tools.

2 A2P SMS fits the traditional volume-based A2P messaging business model that serves use cases such as promotions, one-time-passcodes (OTP) and reminders, and there is still potential for growth because the number of businesses and organisations adopting A2P messaging solutions is expected to grow in all regions.

combined). Businesses will widen their A2P messaging strategies to include multiple channels in order to reach more customers and address a wider variety of use cases. They can do so with relative ease, and this will allow them to achieve scalability while controlling costs.

Figure 1: Enterprise spend on A2P messaging services, by component, worldwide, 2016–2024



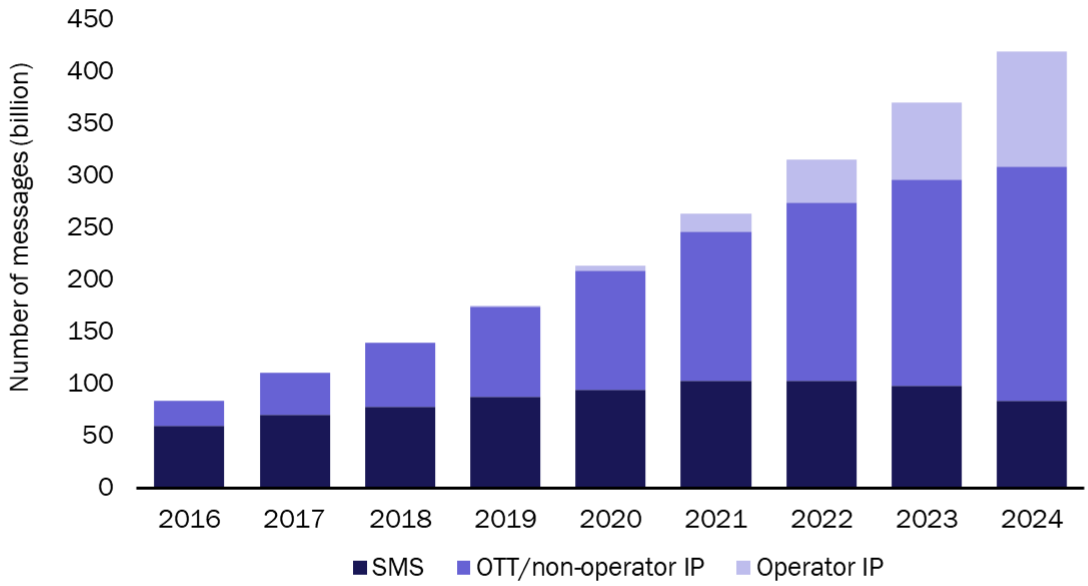
Source: Analysys Mason, 2020

One of the opportunities that A2P messaging offers businesses is the ability to move away from using call centres and to instead adopt cloud-based contact centres as the core customer support channel. Businesses will be able to build a direct communications channel with their customer bases, especially within RCS and OTT platforms that allow firms to operate and customise their messaging channels.

OTT communications services will capture most of the demand for customer service A2P use cases

Figure 2 shows the expected A2P traffic for customer service use cases. This is one of the seven use case categories included in our traffic and enterprise spend forecast. The majority of the customer service A2P traffic will come from OTT communications services because these services are actively being used to target this segment and they offer a wider reach than RCS. The enterprise spend for customer service use cases will grow the most out of all A2P messaging use cases (from USD2.1 billion in 2018 to USD4.2 billion in 2024), and OTT and operator IP channels will account for 54% and 26% of the traffic, respectively by 2024.

Figure 2: Number of A2P messages sent for customer service use cases, by channel, worldwide, 2016–2024



Source: Analysys Mason, 2020

Global platforms such as Facebook Messenger and WhatsApp and regional propositions such as Viber have almost reached complete penetration for P2P communications (in the countries where they are dominant), and are approaching SMS in terms of scale. Enterprises can easily adopt the A2P messaging services of these platforms, because they are available at a minimal additional cost and have been registering high levels of engagement with the customer base. LINE in Japan and Taiwan and KakaoTalk in South Korea are examples of OTT platforms that have gained prominence in the A2P messaging market after building on their dominance in P2P communications.

A significant amount of uncertainty persists regarding RCS. It is not supported by many operators (there are only four countries in which all major operators have switched on RCS as of 4Q 2019) and it is unclear how long it will take for RCS to be present in a sufficient share of handsets for them to rival OTT alternatives. The opt-in rate for Android users is expected to be low, and Apple has not yet committed to supporting RCS business messaging. The prospects for RCS are currently most favourable in the few countries where there is not a single dominant OTT ecosystem and where operators have been proactive in rolling out RCS.

Operators will benefit from A2P market growth in the short term, but they must be proactive to secure long-term revenue growth

Operators will benefit from the growth in A2P SMS traffic in the short term, but they must be proactive in rolling out RCS business messaging and increasing its penetration among smartphone users in order to remain relevant in the relationships between enterprises and consumers. The use of OTT communications services for A2P messaging is at early stages, but OTT providers have demonstrated that they are quick at adapting the user experience of their platforms to address new consumer and business services, and they may gain A2P market share very quickly as a result.