

Mobile Media Intelligence

Commerce, Content, and Communications fuel the rise of new mobile ecosystems

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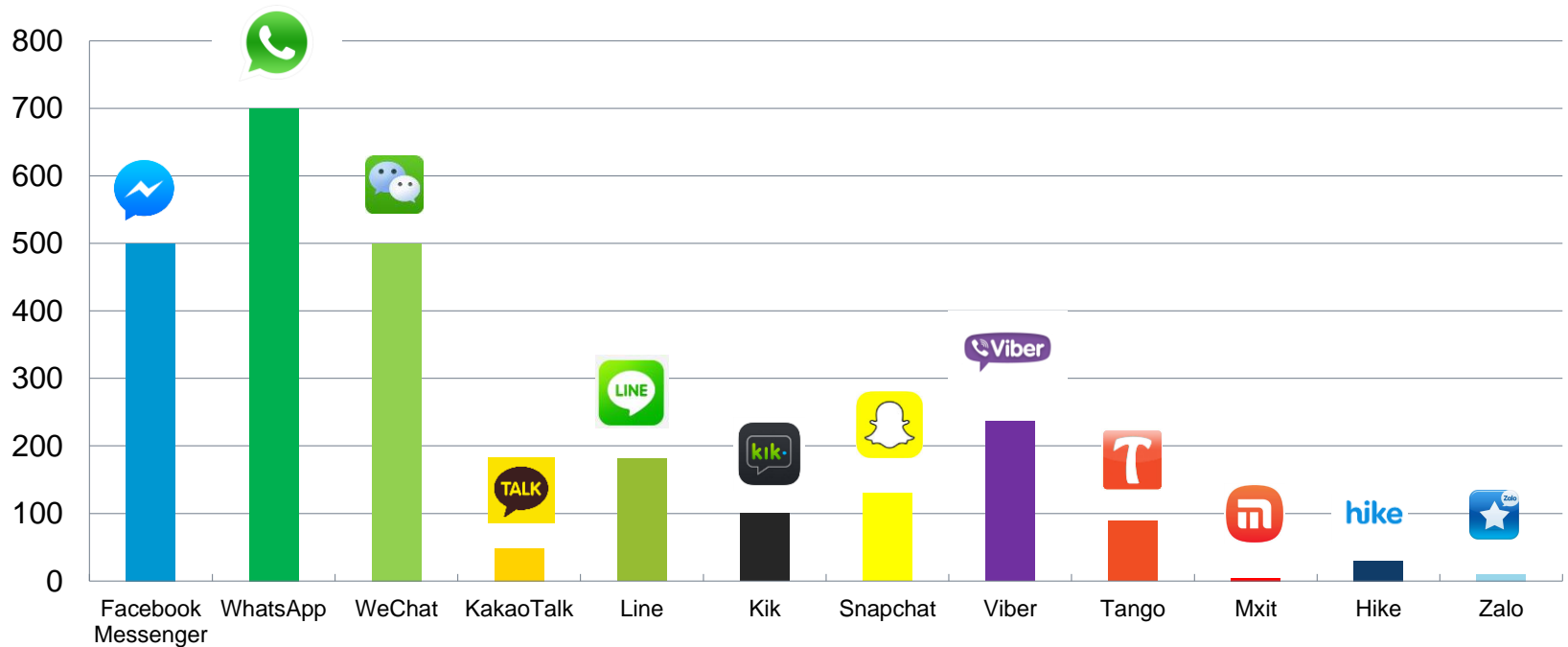


Disruption is happening across the mobile value chain: everyone must respond

- The rise of these new communications centric ecosystems threatens a new wave disruption across the mobile value chain. But there are also opportunities for content and services companies. These apps provide a new way to reach, engage and monetise audiences – especially particular groups (like youth app users) or regions.
- The expansion of these platforms means companies will be competing with asymmetric business models and so companies - whether operators, retailers, financial service providers, content companies or device makers – need to remain focused on where they can monetise their audience.
- International expansion remains a challenge for many services.
- Growth in user numbers is not always matched by monetisation.
- The presence of some strong local players means investing in local offices is necessary.
- Companies need to partner with local content and commerce companies to provide a compelling platform.
- Commerce and payments is a crucial piece of the puzzle. Encouraging users to provide payment details mean apps can have the ability to monetise the audience across any range of services, and potentially outside app store billing.

Facebook holds global lead through WhatsApp and Messenger

2014: selected communications app monthly active users (m)



Source: IHS

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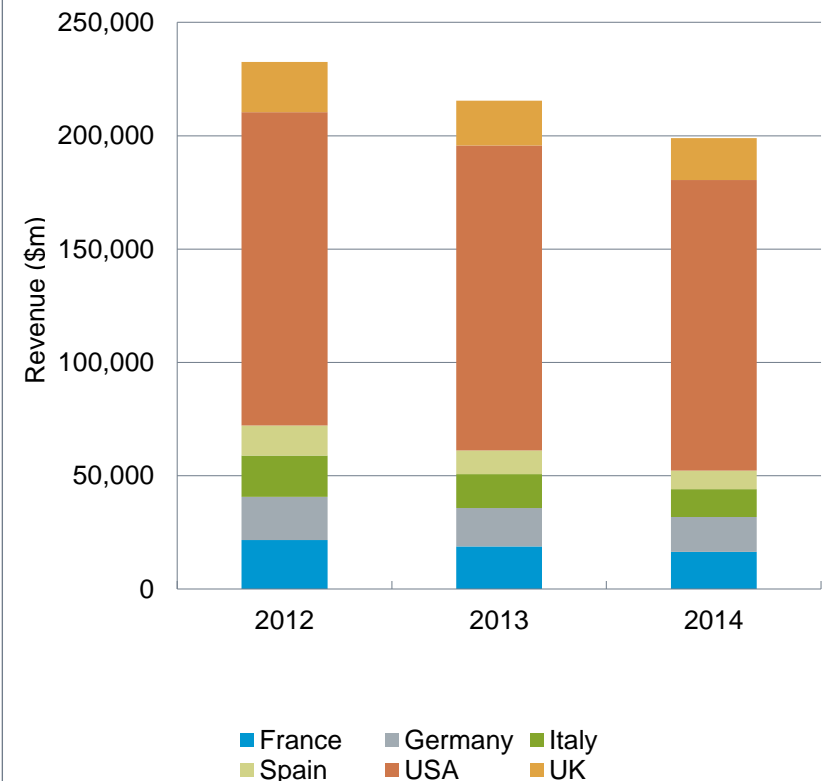
Introduction: communications apps claim combined audience of more than 3bn users

- Mobile messaging and communications apps achieved a combined user base of more than 3bn active users in 2014.
- Despite the impact on operator revenues, communications apps generated less than \$4bn combined revenues in 2014 – UK mobile operators made more than 3x as much revenue selling data revenue than the combined global revenue for messaging apps.
- With communications offered for free or for a very low cost, many apps turned first to content and now also to commerce and payments to monetise and engage their audiences.
- The addition of commerce and payment services helps communications apps build stronger platforms to create new disruptive mobile ecosystems. These don't just threaten mobile operators, but could shake up the wider mobile content and services value chains.
- Asia-Pacific apps are leading the way, but Western apps including Facebook and Snapchat are increasingly integrating content, communications and commerce offers.
- Device makers and platform providers such as Apple, Google and Samsung are already active with many competing services – but must be aware of how messaging app platforms strategies could be disruptive.
- Mobile games have been the key driver of communications app platform strategies – accounting for the vast majority of the \$3.5bn combined 2014 revenues from the three Asia-Pacific apps WeChat, Line and KakaoTalk.

The new wave of mobile ecosystems spans communications, commerce and content

- Over the top (OTT) messaging apps rode the early wave of the smartphone enabled mobile apps market to gain widespread adoption. By offering free or very low cost communications and enhanced features over traditional operator services such as group messages, stickers, and international communications, these apps quickly threatened core mobile operator communications revenues which have been declining in many markets for some time.
- There are now more than 3bn combined app OTT communications app users (counting users of multiple services). Increasing competition, international expansion, and the need to monetise and engage users beyond communications are threatening further disruption of the mobile content and services value chain. Many apps turned first to providing content, notably the lucrative mobile games market, to monetise users and now are looking to provide commerce and payment services to extend their platform and ecosystem strategies.

USA & EU5: Mobile operator voice and messaging revenues (\$m)



Source: IHS

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Disruption extends beyond operators

Communications app ecosystems follow smartphone/apps store disruption

- The rise of smartphones and app stores led the first wave of mobile content and services disruption. This followed the launch of Apple's first iPhone in 2007 and the launch of the App Store and first Android devices and application stores in 2008.
- App stores' ability to provide content distribution, discovery, and billing at a global scale undermined the previously dominant role of mobile operators. These stores provide a different identity and billing mechanism from the operator controlled phone number and mobile.

Payment and billing information is crucial to ecosystem strategy

- OTT apps still rely on app stores for app distribution, but their expansion into content discovery and monetisation and now into commerce, and payments means they have added many of the key ingredients to disrupt the mobile content and services business.
- Adding real world commerce and payment services, if successful, can enable OTT platforms to acquire user payment information. This takes away one of the key advantages that app stores previously held and makes OTT apps play a greater role in the mobile content and services the value chain.
- The ability to charge users for content and services makes communications platforms more attractive partners for third party providers as they can provide a clear route to monetisation.

Why have OTT communications apps taken over?

Devices, data, engagement and real world interactions

OTT apps have become the default method of communications for many users, particularly for instant messaging. The promise of free or very low cost communications presents an obvious advantage over operator billed services but other factors have been crucial to the rise of communications app ecosystems:

- **Smartphone ubiquity** – smartphone penetration of mobile subscriptions reached 61% in Western Europe, 71% in North America and 80% Japan at the end of 2014
- **Data access and cost** – increased access to 3G and 4G data has helped. But the relatively low data usage of many messaging apps and the ability for messaging centric apps to run on 2G data networks is also important. Mobile operator partnerships to subsidise or zero rate data have also made an impact.
- **The personal nature of communications** – is another crucial factor. Interactions between closer friends and contacts drives engagement, usage, and retention. In time this can fuel monetisation through recommendations and real world transactions (e.g. splitting bills) if users provide payment information.
- **Engagement** - as OTT apps become the default communications service for many users they can drive much higher engagement and use retention than other, even social, app categories.
- **The need for monetisation** – the initial focus on free and low cost communications means that OTT apps must look to content and commerce for monetisation. Some, like Facebook, Snapchat and Kik, are focused more on advertising and brand strategies – but for others monetisation through taking a share of revenues from content and services is crucial.
- **Commerce and Payments are the crucial piece of the puzzle** - app stores are central to mobile app distribution but the addition of commerce and payment services helps create a more robust new ecosystem. For real world activities like taxi apps, e-commerce, or peer-to-peer payments, adding commerce services encourages users to provide payment information which coupled with in-app discovery tools challenges the existing value chain.

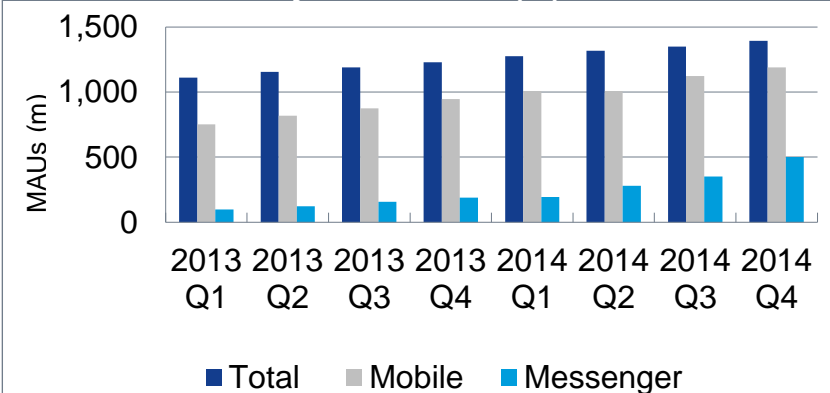
Facebook's global scale dwarfs competition

Facebook Messenger:

- **Launch:** 2011 (Messenger app)
- **Ownership/ Funding:** Facebook
- **HQ:** California, USA
- **2014:**
- **Mobile/App revenues:** Total mobile - Messenger – N/A (no direct monetisation)
- **2014 Active users:** 500m



Facebook: Monthly active users (m)



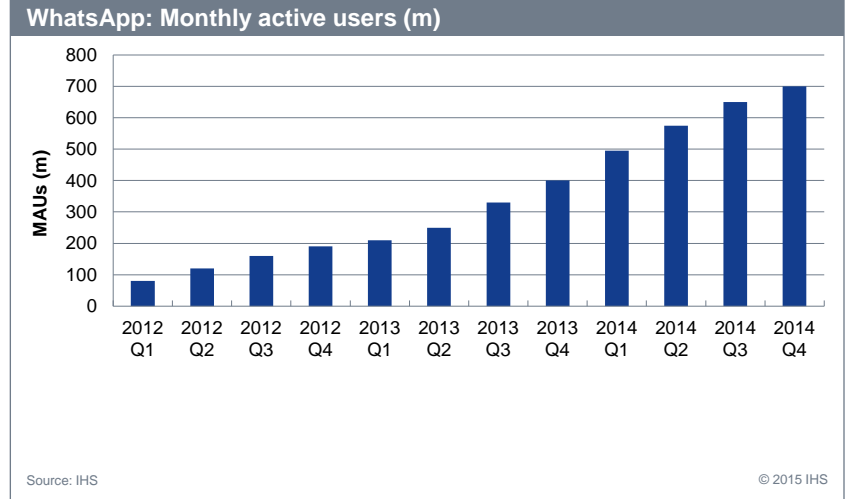
Source: IHS

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- Facebook launched its Messenger content platform in March 2015. The platform provides discovery tools for compatible Messenger apps. Users can share links in conversations. Facebook also added peer-to-peer money transfers via Messenger in the US in early 2015.
- Integrating payments and content are Facebook Messenger's first tentative steps beyond communications. These plans are less developed than Asian competitors and remain more focussed on driving engagement and core advertising revenues. With social interaction increasingly focused on communications apps, particularly in new markets, Facebook needs to innovate to remain competitive – and drive ARPU.

WhatsApp retains core communication focus

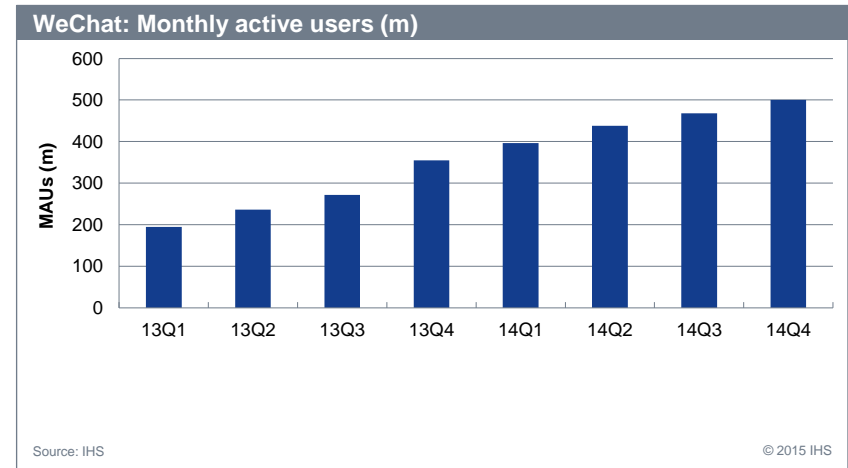
- **WhatsApp**
- **Launch: 2009**
- **Funding/ Ownership: Acquired by Facebook in 2014 in a \$19bn deal**
- **HQ: California, USA**
- **2014: Active users: 700m**
- **2014: Mobile/ App Revenues: WhatsApp - >\$100m (est);**



- Unlike Messenger, Facebook's other messaging app WhatsApp, acquired for \$19bn in February 2014, remains focused on communications.
- It added voice calling to its messaging service in early 2015 and has some links with content companies to share app and content information. It has so far not pursued a platform or services strategy and remains free of advertising and other monetisation beyond its annual subscription fee (which is not always taken and easy to avoid).

Tencent: WeChat leads in monetisation – but international revenues are limited

- WeChat
- Launch: 2011
- Ownership/ Funding: Owned by Tencent
- HQ: Shenzhen
- 2014
- Mobile/App revenues: \$1.57bn (mobile games)
- Active users: 500m

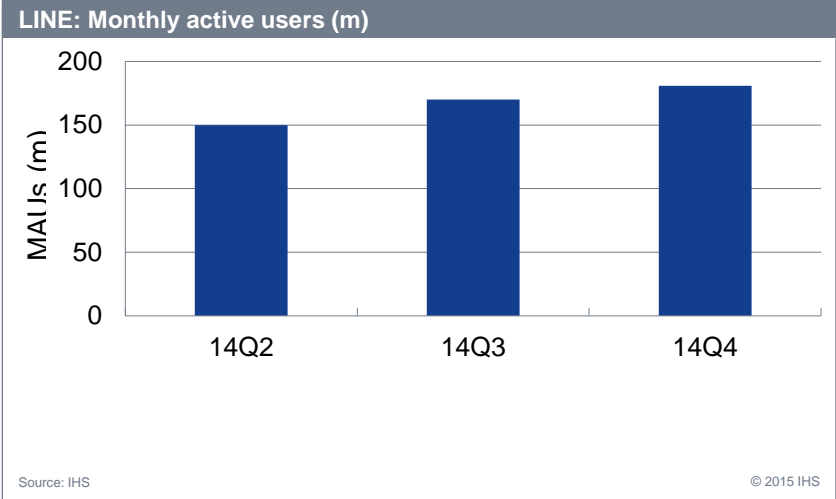


- WeChat's strategy goes much further than games. WeChat content and services include: Payments/ financial services, Commerce and services, Games, Photo sharing, Stickers.
- Commerce is critical to Tencent, and it partnered with online retailer JD.com. WeChat is using its domestic messaging dominance to compete in adjacent industries, bringing it into competition and partnership with other ecosystems such as Alibaba, Baidu and Xiaomi.
- International expansion is another goal, but so far most of its content, services and commerce strategy is focused on China.

LINE offers widest range of services – but needs to do more to grow internationally

LINE

- **Launched: 2011**
- **Ownership/ Funding: NHN Japan/ Naver Corp; IPO prospectus filed 2014 (since delayed)**
- **HQ: Tokyo, Japan**
- **2014:**
- **Active users: 181m**
- **App / Mobile revenues: \$733m**



- Line first monetised its users through games and stickers. It extended its platform in 2013 with Line Mall commerce store and Line Music and video.
- It now offers Line Pay; food delivery Line Wow; Line Maps; Line Taxi; a \$42m fund to invest in companies to grow its platform; and it acquired Microsoft's MixRadio personal radio service (originally by Nokia).
- Line has invested heavily in acquiring new international users but needs to do more to engage and monetise them. It is unlikely to match its success in Japan – where users spend the most on mobile content.

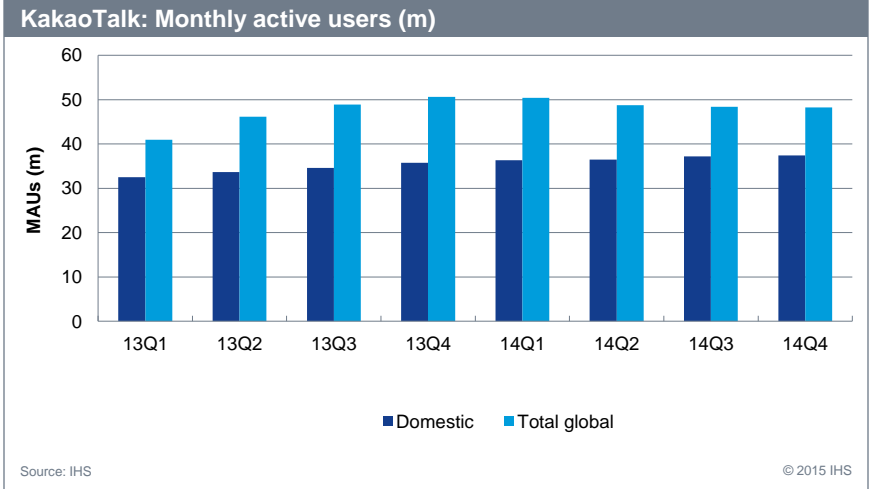
Kakao struggles for user growth – international expansion is crucial

KakaoTalk

- **Launch: 2010**
- **Funding/ Ownership:** Merged with South Korean internet portal Daum in 2014; now publicly listed as DaumKakao
- **HQ: Seoul, Korea**

2014:

- **Mobile/ App revenues: Kakao (excluding Daum): \$330m (est).**
- **Active users: 86m**



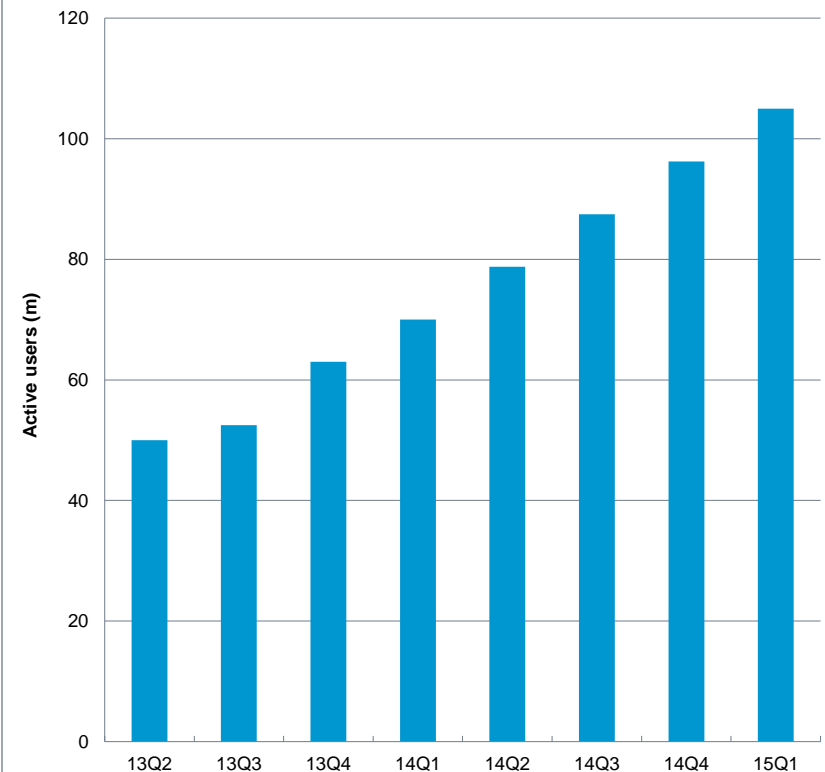
- Kakao is the dominant Korean messaging app with 75% domestic penetration. It merged with internet portal Daum in 2014. Kakao integrated games have fuelled explosive growth in the Korean mobile games market and its platform of content and services includes: payment and wallet services; music; photo sharing; fashion; commerce; mobile advertising; news and books.
- Kakao has struggled for international user growth. It reported 48.3m total global active users in Q4 2014, down from a peak of 50.6m in 2013. While it remains dominant in Korea, Kakao needs to address its international strategy to improve its overall prospects and defend itself against international competitors.

Alibaba: In-app commerce Tango Shop gives Alibaba access to US mobile audience

- Tango has partnered with Walmart and Alibaba in March 2015 to launch an in-app commerce service Tango Shop. Tango's service is initially available in the US but will expand to other regions and include more retailers in the future. Alibaba invested \$215m in Tango in 2014.
- Tango's move into commerce follows the evolution of Asian messaging apps such as Wechat, Line and Kakao Talk. Commerce will be crucial to providing a larger platform for messaging app monetization.
- The partnership with Tango gives Alibaba a platform to reach new audience outside China for its online marketplace. It has a healthy lead in commerce in China but has not unlocked the potential of utilizing its own chat app Laiwang as it has not succeeded in gaining traction so far.
- Tango's US competitors are in preparation to integrate commerce into mobile ecosystem. Both Snapchat and Facebook have been expanding the role of their messaging platforms and introduced in-app payments.



Tango: Active users (m)



Source: IHS

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Snapchat and Kik focus on brand strategy in North America

Snapchat

- **Launched: 2011, USA**
- **Ownership/ Funding: \$848m**
- **2014: Active users: c. 130m (est)**
- Founded in 2011, photo and video sharing app SnapChat is particularly popular with the youth audience in North America. The app introduced advertising in 2014 and has started to roll out payment and content features to engage and monetise its audience.
- It launched its Spencash US peer-to-peer payments service in 2014 in partnership with Square. In January 2015 Snapchat stepped up its content ambitions with the launch of Snapchat Discover – a feature that enables brands (including launch partners ESPN, CNN, and VICE) to deliver content to users.
- Snapchat's content, commerce and monetisation strategies remain at a nascent stage. But the addition of payments and content partnerships helps provide it with a solid foundation which to build an ecosystem.



Kik

- **Launched: 2009, Canada**
- **Ownership/ Funding: \$65.8m**
- **2014 Active users: c.100m (est)**
- Canadian messaging app Kik was one of the first to launch in 2009 and also one of the first Western apps to pursue an integrated content strategy partnering Zynga for a games service in 2013.
- 70% of Kik's user base is in the US and it is particularly popular with teens. Kik has yet to establish payment or commerce services. Instead it is mainly focused on building a brand strategy enabling partners to build HTML5 mobile web experiences within the Kik app alongside promoted brand chats and messages. For Kik to help further monetise these brand experiences and play a bigger role in the value chain – it would make sense for it to partner or launch its own commerce and payment services.



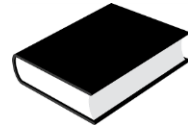
Rakuten puts Viber at centre of integrated commerce, content and communications plans

Viber



- **Launched: 2010**
- **Ownership/ Funding: Acquired by Rakuten for \$900m in 2014**
- **HQ: Cyprus (Viber), Japan (Rakuten)**
- **2014 Active users: 236m**
- Viber's 236m active users make it bigger than many of its competitors, but its content and commerce plans are still at a nascent stage. Launched in 2010 and initially focused on voice communications, Viber was acquired by Japanese e-commerce leader Rakuten for \$900m in Q1 2014.
- Viber made its first content moves at the end of 2014 by adding a games platform. Rakuten has much bigger plans for Viber. The Japanese company offers a wide range of content and services including e-commerce, online video, travel, financial services, and eBooks. Rakuten aims to make the Viber ID central to its plan to tie its services together and as an entry point into its ecosystem.

Rakuten content, commerce and communications services



Kobo, OverDrive [Books]



Wuaki.tv, Viki [Video]



Viber [Communications]



Rakuten shopping, financial and travel services
[Commerce]

Regional players also stake a claim

Hike – India



- **Launched: 2012**
- **Ownership/ Funding: \$86m from Bharti Softbank Ventures**
- **HQ: India**
- **2014 Active users: c. 30m (est)**
- Backed by a joint venture between Indian and Japanese mobile operators Bharti and Softbank, Hike is an Indian instant messaging app focused on building its domestic Indian audience before pursuing international expansion.
- It is focused on user acquisition rather than monetisation, though content and commerce services will be part of its long term plan. Hike launched a games studio in Bangalore in 2014 and it is working on a distribution and discovery platform. Providing locally relevant content and services is crucial to Hike's strategy.

Mxit – South Africa



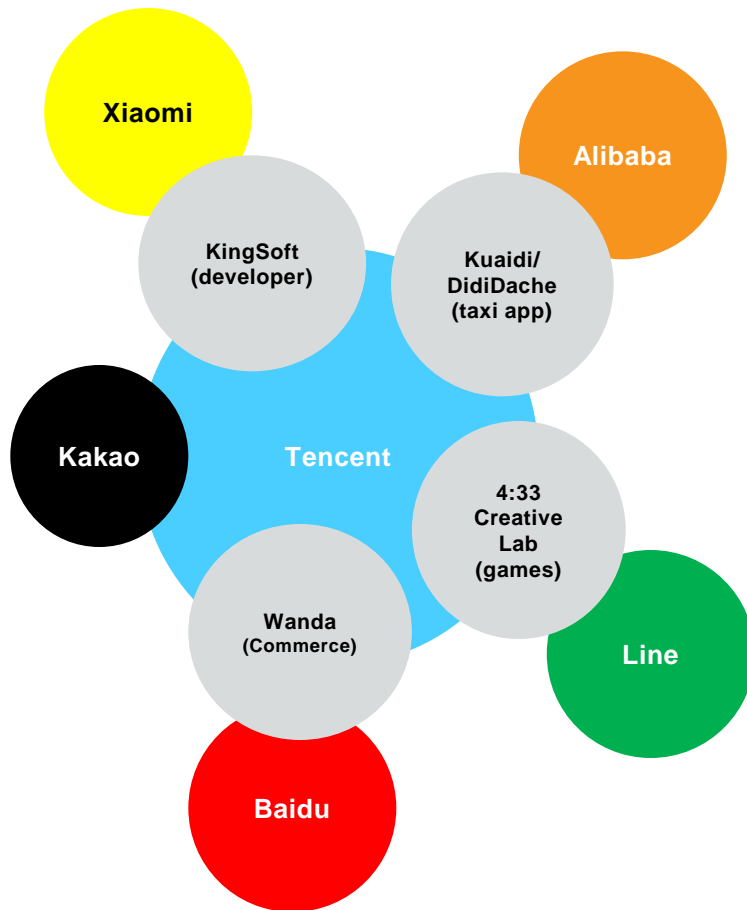
- **Launched: 2007**
- **Ownership/ Funding: World of Avatar acquired Mxit in 2011**
- **HQ: South Africa**
- **2014 Active users: c. 4.5m (est)**
- One of the earliest instant messaging apps to launch in 2007, South Africa's Mxit has struggled to compete as bigger international players such as WeChat and WhatsApp have quickly acquired users in its core African markets.

Zalo – Vietnam



- **Launched: 2013**
- **Ownership: VNG Corporation**
- **2014 Active users: c. 10m (est)**
- Largely focussed on its domestic Vietnamese audience Zalo, launched by VNG corporation, claims around 10m users making it on the leading messaging apps in Vietnam. It is one of the most successful single-market focused apps.
- Like many competitors, Zalo offers a range of content including games and stickers – but is not looking for international expansion. Strong local TV, online and mobile advertising campaigns helped Zalo acquire its large domestic audience – making it competitive with international apps looking to expand in Vietnam.

Investments, international expansion, new markets means emerging ecosystems increasing overlap



The growing integration between content, commerce, and communications services means that ecosystems increasingly overlapping as well as competing.

Tencent's investment strategy illustrates how it overlaps with competitors including:

- **Alibaba** (competes in: messaging, payments, and commerce) - with whom it has partnered for the DidiDache Taxi app
- **Line** (competes in: messaging, games, ecosystem) a co-investor in Korean games developer 4:33 Creative Lab
- **Baidu** (competes in: content, video, apps) – also an investor in Wanda (commerce).
- **Xiaomi** (has competitive messaging, content, apps) – also an investor in KingSoft developer.

Investments drive expansion into adjacent markets

Line

Tencent

Kakao



Acquired MixRadio from Microsoft in 2015.



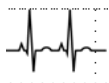
Part of \$700m funding round for taxi app Dididache in 2014.



Merged with online portal Daum in 2014.



Invested in Gumi and 4:33 Creative Labs S. Korean Games studios in 2014.



Invested in Health tech developer Ting Ting Group in 2014.



Acquired kids' communications app in 2015.



Acquired WebPay Japanese payments firm in 2015.



Part of \$350m round for mobile marketplace Koudai.



Acquired K-Cube Venture fund.



Invested in 4:33 Creative Labs.

Alibaba's international and domestic investments focus on communications, content and commerce



- Kuaidi Dache (China) – taxi app
- AutoNavi (China) – navigation



- Kabam (USA) – social/ mobile games
- Ktplay (China) – social games



- Tango (USA) – messaging app
- Sina Weibo (China) – social network
- UCWeb (China) – browser



- Peel (USA) – smart/remote – TV
- Youku Tudou (China) – online video platform

Operators must understand the nature of new ecosystems if they want to compete

- OTT messaging apps' impact on core operator communications revenues is clear. Operators looking to compete head on to defend revenues have generally struggled. Others have had more success partnering with OTT apps to differentiate, but as these deals become more common the positive impact and ability to differentiate is reduced. Many operators have looked to innovate and grow by investing in adjacent markets to expand their content and services strategy. The increased integration and expansion of OTT communications ecosystems into new areas threatens operators with further disruption and competition.
- The asymmetric business models that free messaging apps have used to undermined operators' communications revenues could extend to new areas in which operators are investing. To remain competitive operators must focus on which part of the value chain they can monetise and be aware of how competing ecosystems may monetise elsewhere.
- Asian operators including Japan's Softbank and Singapore's SingTel have been among the leading carriers that have invested in wide range of adjacent industries.

Selected Softbank investments (H2 2014)

Category	Company	Value (\$m)*	Activity
Services	RedMart	\$23.0	Commerce
Social/Comms	Hike	\$65.0	Messaging
Advertising	xAd	\$50.0	Advertising
Services	FlightCar	\$13.5	Automotive
Services	EdCast	\$6.0	Education
Services	TalkingData	undisclosed	Analytics
Services	Tokopedia	\$100.0	Commerce
Software/OS	KnowRe	\$6.8	Education
Services	Olacabs	\$210.0	Automotive
Social/Communications	Jandi	\$2.0	Communication
Services	Bigcommerce	\$50.0	Commerce
Services	GrabTaxi	\$250.0	Automotive

*total value of round, not Softbank investment

Communications app expansion could disrupt established mobile ecosystems

It is not just operators that have to face the threat of new mobile ecosystems. The integration of content, commerce and communications makes OTT communications apps competitive with players across the mobile value chain.

Apple

- **Messaging/Communications:** iMessage, Facetime
- **Content:** App Store, iTunes
- **Commerce/ Payments:** Apple Pay
- The launch of Apple Pay in late 2014 provided Apple with a full set of content, commerce and communications services. Apart from the Apple ID and credit card billing tying them together there is little direct integration between many of these services.
- Apple's primary aim with all its content, commerce and communications services is to drive device sales and tie users into its ecosystem. It can make revenues and profits from content and payments but these are dwarfed by the revenues made from hardware.
- New OTT ecosystems could still present a threat. If they lessen users' dependence on Apple services they could make it more difficult for Apple to keep people tied into its ecosystem and differentiate its devices. The threat to Apple is that customers may stop using its services in favour of new OTT apps (as long as it sells devices); but rather that expanded and integrated app ecosystems could make it easier for customers to get the same experience across different, non-Apple, devices and platforms.

Google

- **Messaging/ Communications:** Hangouts, Gmail, Google+
- **Content:** Google Play, YouTube
- **Commerce/ Payments:** Google Wallet, Android Pay
- Google acquired the mobile payments technology of US-operator led mobile payments consortium Softcard in Q2 2015 to strengthen its role in payments and boost its Google Wallet proposition which has struggled for widespread adoption.
- Like Apple, Google offers a full range of content, commerce/payments and communications services. And like Apple, Google offers these services primarily to drive its core business - advertising. While Google faces the same threats, the impact is potentially much greater. Apple doesn't really rely on customers to use its services provided it makes money selling devices.
- Google does need people to actively engage with its services to drive advertising revenues – and advertising is an important part of many OTT ecosystems' monetisation strategies.

Microsoft and Samsung need partners to mount a challenge

Microsoft

- **Messaging/ Communications: Skype, Lync, Outlook**
- **Content: Windows Store, Xbox (games, music, video)**
- **Commerce/Payments: N/A**
- Unlike Apple and Google, Microsoft has yet to launch a mobile payments or commerce service. Skype is central to its communications plans and is increasingly being integrated with other Microsoft services such as Outlook email, Lync, Office – but such integration does not really extend fully to mobile content / app experiences. With Windows Phone still a challenger operating system and Microsoft being less active across the full range of communications, content, and commerce services, it could look to partner third parties to help differentiate its devices and grow its mobile presence.
- Microsoft announced a partnership with Android open source OS Cyanogen that will see Microsoft communications (Skype) and content services come bundled with future versions of the Cyanogen Android-based OS.

Samsung

- **Messaging/ Communications: ChatON (closed)**
- **Content: Samsung Apps, Milk Music**
- **Commerce/Payments: Samsung Pay**
- Samsung acquired mobile payments technology Loop Pay in early 2015, paving the way for the launch of Samsung Pay expected later in 2015. Samsung's commitment to building a new payments service is in contrast to its more limited ambitions in content and communications.
- Samsung continues to support its cross platform application store, but it has little traction compared with Google Play. It has also scaled back other content services in music and video and announced the closure of its ChatOn messaging app in 2014.
- Samsung's main aim to is sell devices, but the dominance of Google-based Android services means it has struggled to tie users into its own, rather than Google's ecosystem.

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