



# A2P SMS: TOWARDS A NEW BALANCE OF POWER?

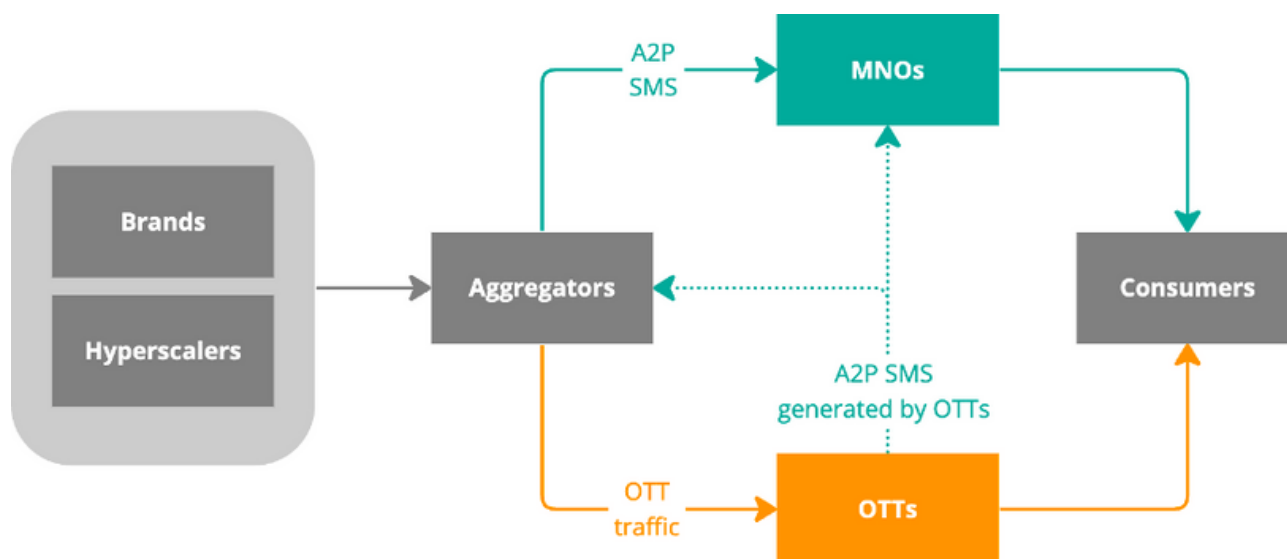
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# EXECUTIVE SUMMARY



This whitepaper should bring readers up to speed on A2P issues independent of where they're working in the messaging value chain (represented above). The whitepaper highlights the following steps towards a healthier A2P SMS ecosystem:

- **Immediate action to stop AIT.**
- **Greater transparency & fairer pricing.**
- **Fight against fraud and bypass routes.**
- **Revised commercial model(s).**
- **Reinforcing security to restoring trust in SMS.**
- **Amplifying successful use cases.**

Starting with an analysis of SMS's biggest customers, OTTs & Hyperscalers, the whitepaper will then consider the prices they're paying, the alternative solutions they seek out and how operators might mitigate these impacts to extend SMS's long-standing success.

# METHODOLOGY

In undertaking this comprehensive report, we employed a holistic research methodology, integrating a blend of structured interviews, ongoing dialogues, and practical experience, underpinned by the deep market knowledge inherent to GTC.

We engaged with a spectrum of professionals from various segments of the A2P ecosystem—including telecom operators, messaging aggregators, and Over-The-Top (OTT) service providers—spanning diverse geographies from the Americas to EMEA.

Our inquiry was directed at understanding the current sentiments, market dynamics, and future projections within the A2P landscape.

Our approach involved recording, summarizing, and analyzing discussions that revolved around the shifting roles of OTTs in the messaging arena. We diligently searched for patterns, sentiments, and perspectives that resonated with the market's pulse.

Insights were drawn from a variety of industry experts, ranging from evangelists in future messaging to product managers in Rich Communication Services (RCS), each bringing a unique vantage point from their respective roles and geographic market exposures.



## A note on definitions

**OTTs** - for the scope of this whitepaper when we mention OTTs we're referring to hyperscalers who have launched rich messaging channels of their own: Meta, Apple & Google\*

**Hyperscalers** - used to refer to massive multinational companies that send millions of messages across multiple use cases (including OTTs). Amazon and Microsoft are good examples.

**MNOs, Operators, Carriers** - used interchangeably throughout for those that sell A2P SMS termination to hyperscalers, aggregators and enterprises.

**Aggregators, Messaging Providers, MSPs** - used interchangeably throughout for those that sell messaging to enterprises.

**Businesses, Brands, Enterprises** - used interchangeably throughout for those that buy messaging.

**Consumers, Customers, Users** - used interchangeably throughout for those that receive messaging.

*\*We were challenged in interviews when classifying Google as an OTT since RCS is borne of operator partnerships however, given the role of Google Guest (as an over-the-top strategy) to reach a wider audience we've decided to include them in this grouping.*





# INTRODUCTION

## The Hyperscaler's Lens on Messaging: Challenges and Opportunities

Messaging in the hyperscaler context is perceived as both a significant challenge and a critical opportunity. This perspective doesn't just apply internally but also reflects a broader outlook on the messaging market. Hyperscalers have evolved their understanding of the intricacies involved in the aggregator model and the impact of unauthorized routes on user engagement.

With the trend of rising prices, aggregators are compelled to safeguard their margins, sometimes through controversial practices such as SMS trashing and the generation of artificial traffic. Consequently, OTTs are becoming more discerning and strategic, actively seeking ways to reduce costs and evaluate alternatives to conventional A2P SMS.

OTTs confront a trio of intensified issues: soaring costs, unstable pricing, and fluctuating message quality. As the volume of SMS sent by these entities has grown, so too has the scrutiny over messaging expenses. This has prompted a concerted effort to optimize A2P SMS use and renegotiate terms with messaging partners.

For enterprises, navigating the messaging market is a complex task that demands an understanding of both the channels and the commercial dynamics at play. Messaging, when optimized, presents an opportunity to not only solve communication challenges but also to significantly enhance customer experiences and engagement.

## Operators and Aggregators: Navigating a Precarious Path

The central inquiry of this report is whether OTTs are positively or negatively impacting SMS currently. It seems likely that OTTs could potentially reduce SMS revenue streams in the future by using their own messaging channels, which may encourage other enterprises to move away from SMS. Yet, it is also true that OTTs have been instrumental in the rise and current success of SMS.

However, operators may be causing more significant harm with frequent and steep rate increases, especially for international traffic. Aggregators also contribute to this problem by either raising prices or engaging in questionable behaviors to maximize their margins.

This situation has led to a market where operators push pricing to its limits, and some aggregators engage in various levels of questionable practices, overwhelming businesses. The consequence is businesses feeling exploited and customers receiving inconsistent messaging experiences.



# From DIY Solutions to a Rich Messaging Revolution

The challenges faced by large-scale users of messaging services have highlighted the opportunity to improve enterprise solutions. Leading companies are now both the largest users and competitors of traditional A2P SMS services. They have introduced their own A2P channels and are exploring alternative, internal authentication methods that reduce dependency on external providers.

This report will explore the complex roles of OTTs within the messaging ecosystem, considering SMS as a multifaceted issue with various implications. It will begin with a primary focus on the issue of pricing—what has changed, why, and how businesses are responding.

One response from enterprises is to look for alternatives to SMS, which include rich messaging channels and alternative authentication methods. The report will offer a concise review of the key players in this space, their methodologies, and when they begin to compete with SMS. We will conclude by identifying opportunities to enhance the value of the SMS channel in the contemporary marketplace.








# THE QUESTION

## Are OTTs helping or hurting SMS today?



This was the question that instigated this whitepaper being written. That's because the market is witnessing an escalating cycle of increasing costs and proliferating fraud incidents, indicators of profound operational and reputational issues beneath the surface. A dilemma confronts operators and aggregators alike, as the lure of immediate gains casts a long shadow over the enduring prospects of SMS.

This confluence of spiralling expenses and fraudulent activities is precipitating a present-day crisis for SMS rather than a future concern, compelling enterprises to escalate their search for alternative communication solutions. The urgency of these challenges is reshaping priorities as stakeholders strive to navigate a sustainable path forward amidst these turbulent market conditions.

Meanwhile, OTTs have bolstered and burdened SMS. Their contribution to A2P messaging and user education on 2FA is undeniable. Yet, their pursuit of cost-effective alternatives presents a multifaceted challenge to traditional SMS. This complexity necessitates a nuanced interpretation of OTT's role in the messaging landscape.

It is tempting to blame OTTs for SMS' problems, but is it accurate? On balance, *no*:

- OTTs have helped SMS massively.
- OTTs are hurting SMS today somewhat.
- OTTs will hurt SMS revenues more in the future.

## How do OTTs help SMS?

- Spending millions on huge volumes of A2P messaging traffic.
- Familiarising consumers worldwide with SMS for multiple use cases.
- Educating their users on the importance of activating 2FA.

## How do OTTs hurt SMS?

- Reducing the volume of SMS they send to curb spiralling A2P costs.
- Creating rich messaging channels that compete with SMS.
- Questioning the channel's security.
- Finding alternative authentication technologies to replace SMS.



These dynamics are intertwined with operator strategies, which, if recalibrated, could mitigate the adverse impacts and extend the high volumes of traffic SMS providers see today.



# THE PROBLEMS

As climbing prices push aggregators to protect their profit margin through SMS trashing and artificial inflation/generation of traffic, OTTs are increasingly savvy and prepared to make strategic decisions to cap costs, reduce volumes or replace A2P SMS with alternative channels and technologies depending on the use case.

## Operational problems

- **High costs for enterprises.**
- **High costs rising higher still.**
- **Price increases at short notice and unpredictable intervals.**
- **Unreliable quality.**

High costs are an operational problem. Unpredictable price jumps even more so. High fraud means wasted spend, generating additional costs and exacerbating the overall frustration.

## Reputational problems

- **Untrustworthy reporting.**
- **Lack of transparency.**
- **Mistrust in aggregators is contagious and spreading.**
- **Enterprises are aware that they're being ripped off.**

Rampant fraud erodes trust for everyone.

This causes a reputational problem that no, individual company can resolve. It will require a cross-industry effort to shift practices and perceptions in a more positive direction.

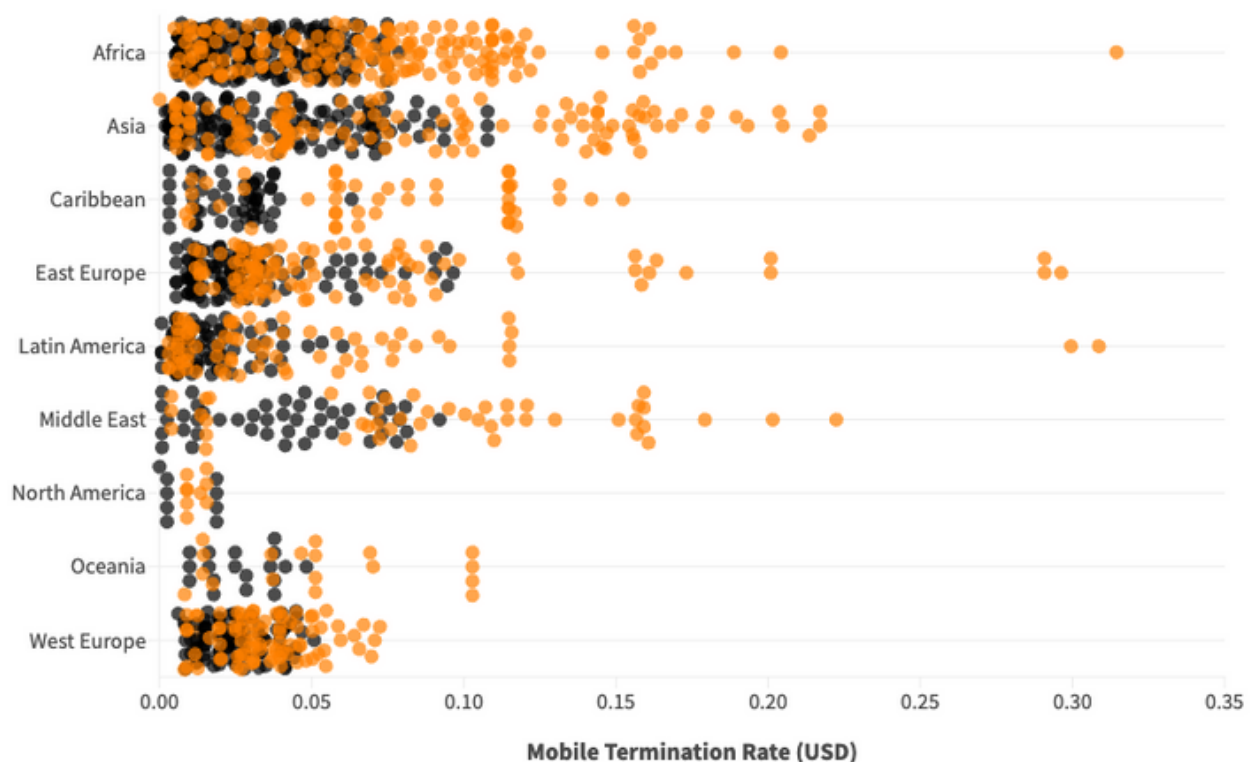
## HIGHER PRICES, HIGHER FRAUD?

Operators hold the levers to either perpetuate or alleviate these conditions. The current scenario is one of rising prices, often driven by immediate profit motives and a market structure that inadvertently incentivizes fraud through price-led competition among aggregators. Since operators define the official MTR for each network, why perpetuate a self-inflicted scenario?

- Short-term operator greed pushes prices up while demand is high.
- Long-term pessimism suggests operators milk A2P SMS while they can.
- Operators want to see quick returns on firewall activations.
- Exclusive termination partners can name their price as gatekeepers.
- The market is structured for aggregators to compete on price, not quality.
- Lack of collaboration between operators to share emerging risk patterns.

### Almost every region has seen operators hike prices since 2017

Comparing operator MTRs in 2023 to 2017 (grouped by region)

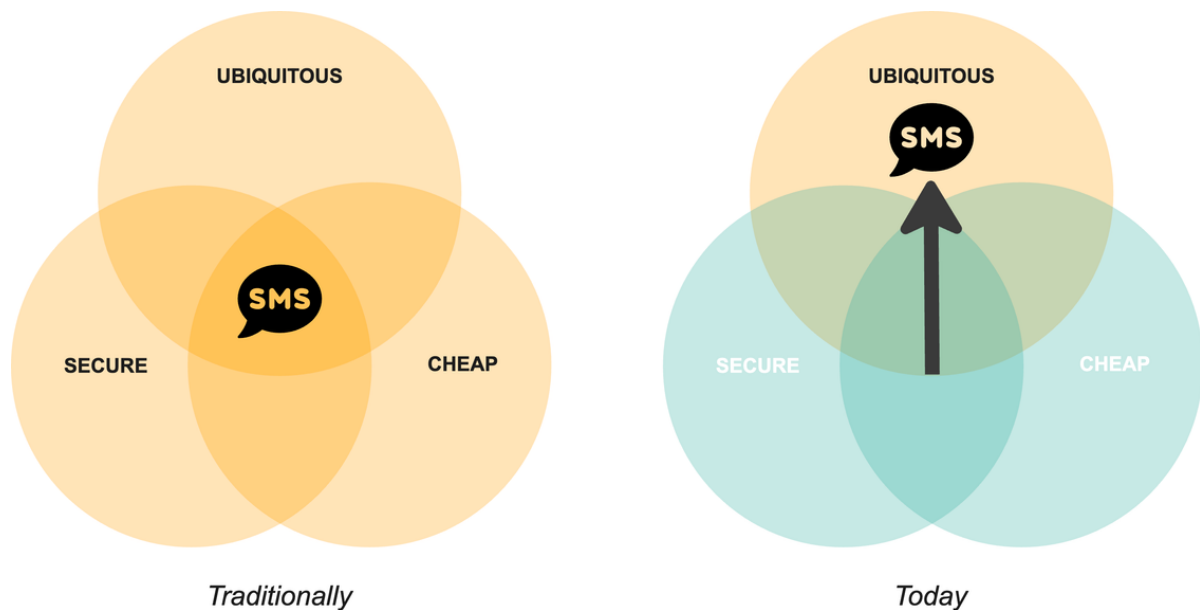


Year ● 2017 ● 2023

Source: Mobilesquared

# THE CONSEQUENCES

SMS has been sitting comfortably at the overlap between ubiquitous, secure, and cheap for many years. Yet, due to rising prices and fraud, it's no longer the triple threat it once was. Nonetheless, it is holding its ground as a robust channel with unbeatable reach.



The consequences of higher prices and growing fraud include:

- **OTTs seek fixed-price, long-term deals with MNOs for direct termination.**
- **Higher incidence of grey traffic on existing grey routes.**
- **Creation of new grey routes to deliver additional grey traffic.**
- **Greater reliance on Artificially Inflated Traffic (AIT) by aggregators.**
- **Greater risk for all: financial risk for consumers, reputational risk for enterprises and risk of regulatory intervention for the market.**
- **OTTs invest in building their own channels and authentication solutions.**
- **Enterprises try alternatives faster than they would have otherwise.**

## How can more firewalls lead to more fraud?

Operators introduced firewalls to protect their networks against SIM Farms and other types of fraud and then sustain incremental price increases. The more advanced and effective the firewall protections, less fraud and fewer grey routes that can undercut operator pricing. That allows operators to command a premium rate for their high-quality route.

However, the popularity and successes of this model has paradoxically engendered a scenario where heightened security measures can result in higher costs. If the business cases for a firewall have overzealous price increases built-in, customers of that route might reject that price and resort to blending their traffic over grey routes. The operators, though, will be bound to that price in order to secure a return on their investment.

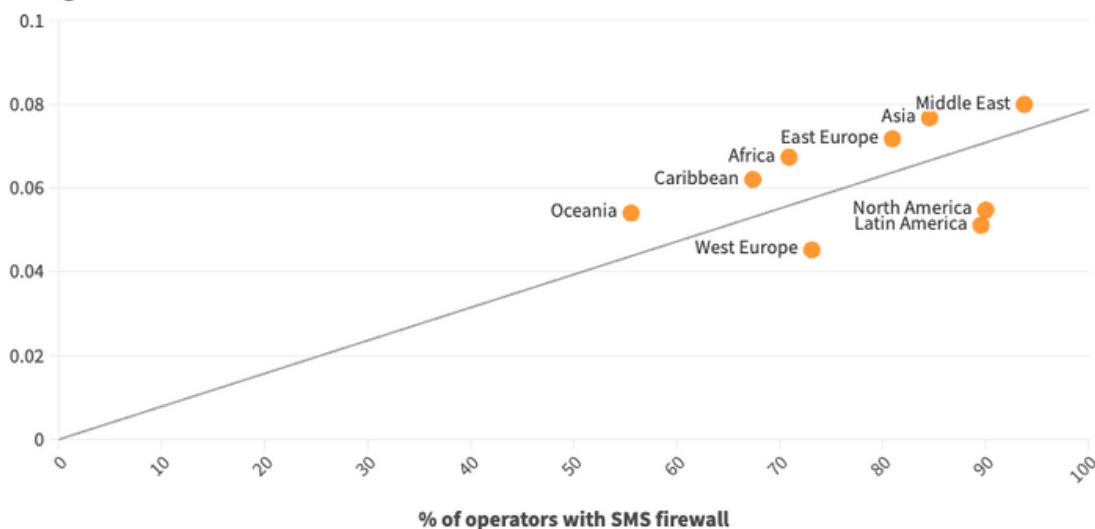
So, rather than reducing fraud, overpricing a protected network can incentivise further exploitation of the network:



### More operators with firewalls lead to higher prices

% operators with FW x Average International MTR

Average MTR for International A2P SMS

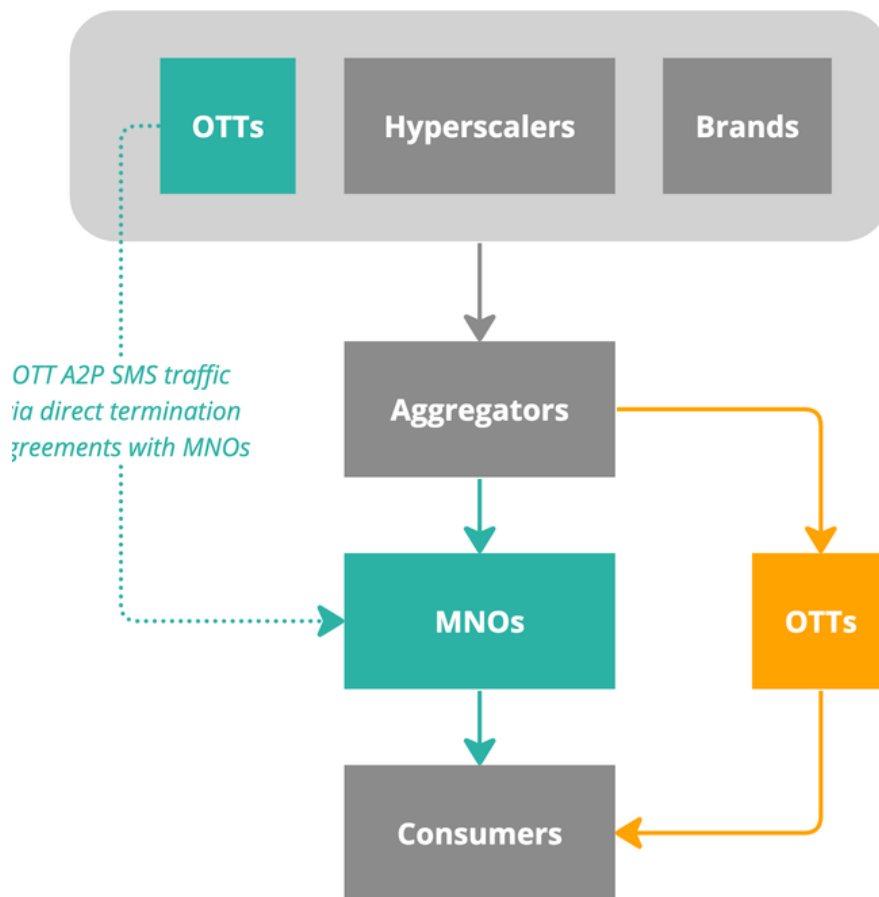


Source: Mobilesquared • Global A2P SMS 2017-2027 Report  
p. 36

# THE ALTERNATIVES TO SMS

To address these challenges, a suite of alternatives is posited, advocating for rich messaging channels, a diversity of authentication methods, and a reimagined approach to service quality. This has led to one fundamental shift: OTTs evolving from A2P SMS's biggest customers to its biggest competitors (illustrated below).

**Google & Meta: historically A2P's biggest customers**



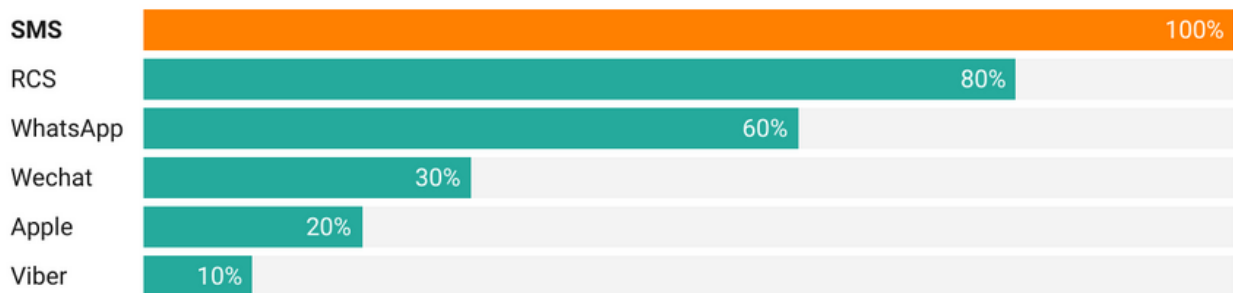
**Expected to represent 25% of messaging revenues by 2027 according to Mobilesquared's *Global A2P SMS 2017-2027 Report\****

*\*estimated before Apple's recent RCS announcement*

# Alternatives to SMS

- **Rich Messaging Channels**
  - RCS via Google
  - WhatsApp Business over API
  - Apple Business Chat
- **In-app notifications**
- **Google Business Messages**
  - The P2A channel where the customer starts the conversation.

## Potential Reach of Rich Messaging Channels



Compared to SMS via % of Unique Mobile Subscribers  
Chart: GTC • Source: Mobilesquared





## Alternative authentication technologies

- **Flash calls** (a seamless user experience but a bypass on the MNO)
- **In-app notifications**
- **Authentication apps** (for high-trust, high-touch customer relationships)
- **Rich Messaging Channels** (for high-trust, *low-touch* relationships)
- **Mobile Connect**
- **Passkeys** (replacing passwords and 2FA to some extent)
- **Silent Authentication**
- **Biometric Authentication**

In the rapidly evolving landscape of digital communication, the need for varied authentication strategies is becoming increasingly clear. It's no longer a one-size-fits-all scenario; different user groups demand distinct levels of security and convenience based on their unique requirements and interactions.

This diversification in authentication processes is crucial to cater to the broad spectrum of customer expectations and to enhance the user experience while maintaining robust security protocols. Whether it's through traditional SMS-based verification, biometric authentication, or emerging technologies like behavioural biometrics, the goal is to provide authentication that aligns with the specific needs and preferences of each customer demographic.



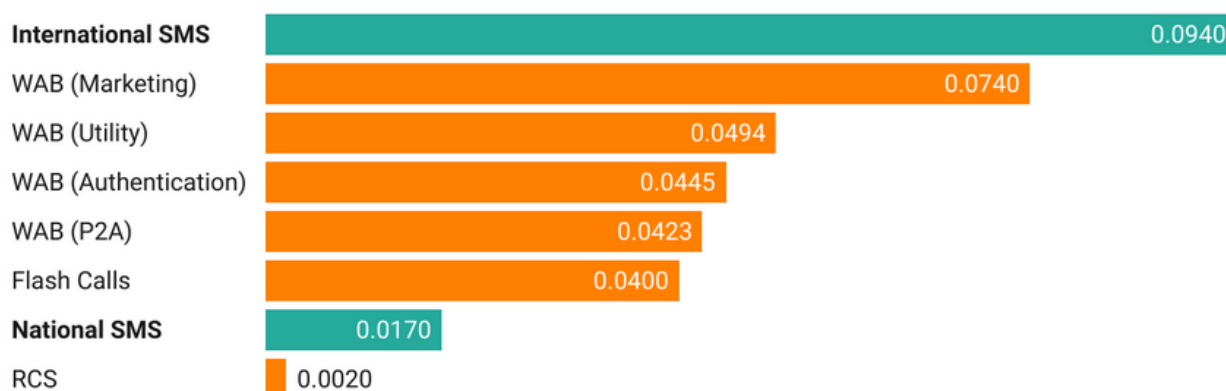
## Disruption on its way

There is an emerging consensus that SMS revenues may plateau. Mobilesquared states that 'increase in international termination rates have altered the trajectory of the entire market and will generate a business spend peak earlier than expected in 2024.

The market could still be enjoying significant growth, according to Mobilesquared, but instead will enter decline.[1] The disruptive solutions accelerating this trajectory include:

- **WhatsApp** which will gain momentum if SMS prices are not reduced.
- **RCS** that could undercut the competition if operator bypass is not addressed quickly.
- **Silent authentication methods** who will dent 2FA over SMS revenues.

Here's an example of how WhatsApp, Flash Calls & RCS prices stack up against SMS rates in one market in LATAM:



Termination rates (in USD) to one market in LATAM

Chart: GTC • Source: GTC

Mobilesquared estimates that recent developments, mainly price increases, over the past 18-24 months **will have cost the A2P SMS industry \$14.36 billion dollars by 2027.**[2]

There is still time to steer away from that trajectory. But to do so does not depend on OTTs. Aggregators are positioned to profit from OTT channels, so operators need to set the tone for A2P SMS to be repositioned in an omnichannel market

[1] Mobilesquared, Global A2P SMS Report: 2017-2027, p. 8.

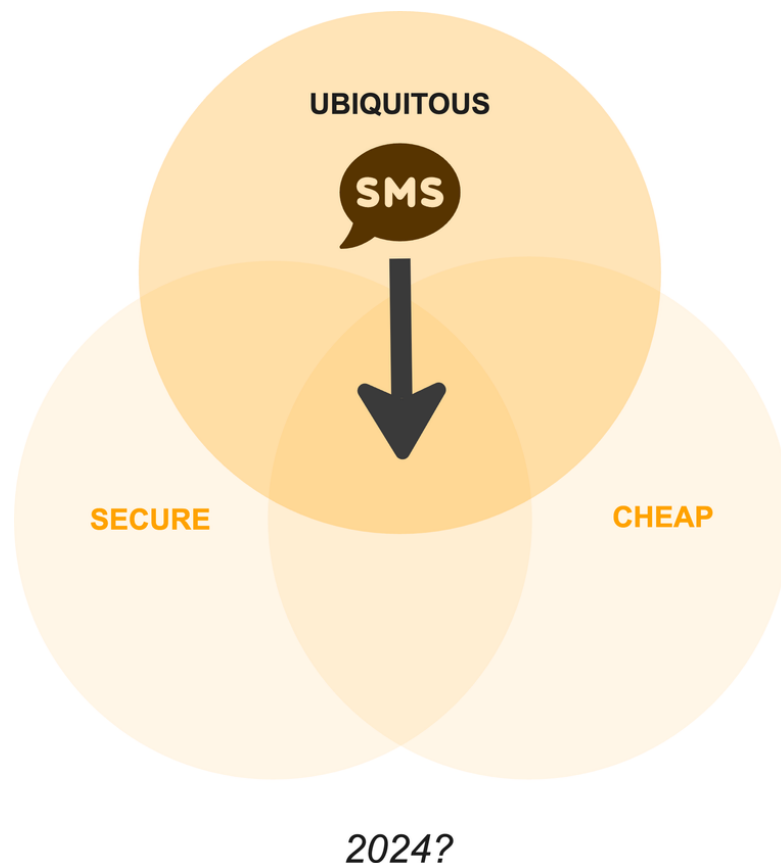
[2] Mobilesquared, Global A2P SMS Report: 2017-2027, p. 11.

# THE OPPORTUNITIES FOR OPERATORS

Considering the current challenges, telecom operators are presented with a unique set of opportunities that, if seized, could redefine their role in the messaging ecosystem. These opportunities not only aim to stem the tide of users migrating to alternative communication channels but also to reinforce and capitalize on the enduring strengths of SMS.

By adjusting pricing models, enhancing service offerings, and emphasizing the reliability of SMS, operators can not only retain their customer base but also attract new segments of the market. Leveraging their existing network assets through innovative API integrations, operators can offer more secure and versatile messaging solutions.

These steps are pivotal for operators to transform the perceived value of SMS and reposition it as an integral component of contemporary communication strategies at the cross-over of secure, affordable, and high-reach solutions.

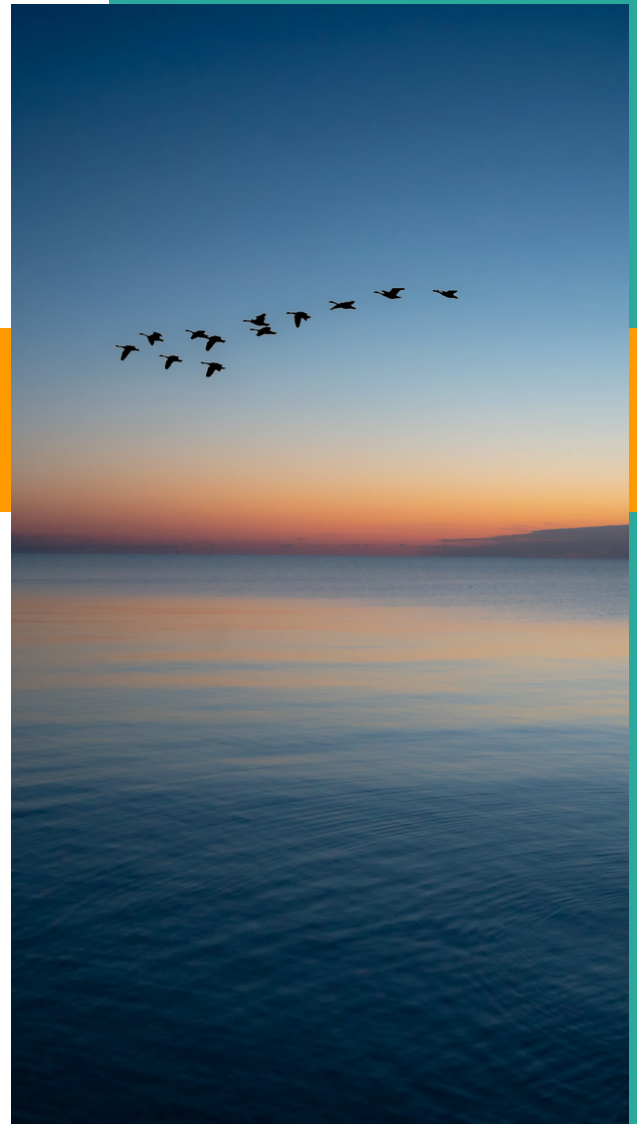


## To slow migration to other channels:

- Reduce A2P prices immediately (international rates especially).
- Offer fixed-term and -price deals to OTTs for direct termination.

## To build on SMS's success:

- Offer an international messaging service to hyperscalers and other multinationals.
- Reframe SMS as the foolproof fallback for omnichannel strategies.
- Focus on quality: offering high throughput and DLRs to demonstrate transparency.
- Enable a secure messaging proposition by exploring network assets that could be exposed and productised via API.



## MONETIZATION & COMMERCIAL MODELS

To address the challenge of monetizing A2P from an MNO perspective, operators should apply a sustainable monetization strategy that goes above and beyond the installation of an SMS Firewall and/or a commercial decision to increase the A2P termination rate.

Nonetheless, the decision for operators to add additional network protection to prevent bypass and fraudulent termination was an important step. The successes of this approach have led to a natural increase in the adoption of SMS firewalls across the market. These firewalls enable MNOs to control and protect their network, subscribers and A2P revenues - not only by blocking bad actors but by monetizing the A2P termination rates into their network at premium prices once protections are live. Since this became standard practice, commercial models for A2P SMS have evolved and emerging models have already made significant impacts on the market.

	MODEL A	MODEL B	MODEL C
CAPEX / OPEX INVESTMENTS FROM OPERATORS	✓		
EXCLUSIVE TERMINATION AGREEMENTS WITH AGGREGATORS		✓	✓
UNREALISTIC MINIMUM VOLUME COMMITMENTS FOR AGGREGATORS			⚠
EXCLUSIVE TERMINATION PARTNERS PREPAY VOLUME COMMITMENTS			⚠

MNOs or Aggregators undermine commercial models when line items such as unrealistic volume commitments and pre-payments are bundled into the terms of an exclusive termination agreement. Bad experiences of these practices have had a negative impact on the channel's reputation and inadvertently incentivised the use of artificially inflated traffic (AIT) for with high termination prices and/or with exclusive deals in place.

Unsustainable commercial models like these have a lasting impact on the industry. Despite the apparent short-term gain, they create long-term risk for the SMS channel and contribute to an accelerated migration towards other messaging channels and shrinking volumes from brands and hyperscalers.

# CONCLUSION

OTTs are not hurting SMS but rather frustrated customers taking action with ample vision and resources to bring disruptive solutions and experiences to market. Despite the significant threat to the future of A2P revenues that these alternatives represent, operator panic and pessimism have proven counterproductive. They have only enabled their competitors faster.

Increasing prices has been a self-destructive shortcut to an unaddressed challenge within operators: how to evolve/add value to the SMS messaging business. Yet, operators can still make adjustments to their monetisation strategy. To retain the value of the SMS channel, the focus should be on pursuing a sustainable, long-term strategy that enables adequate monetisation. This should avoid the adverse effects of the perceived overpricing that accelerates the migration of traffic to other channels.

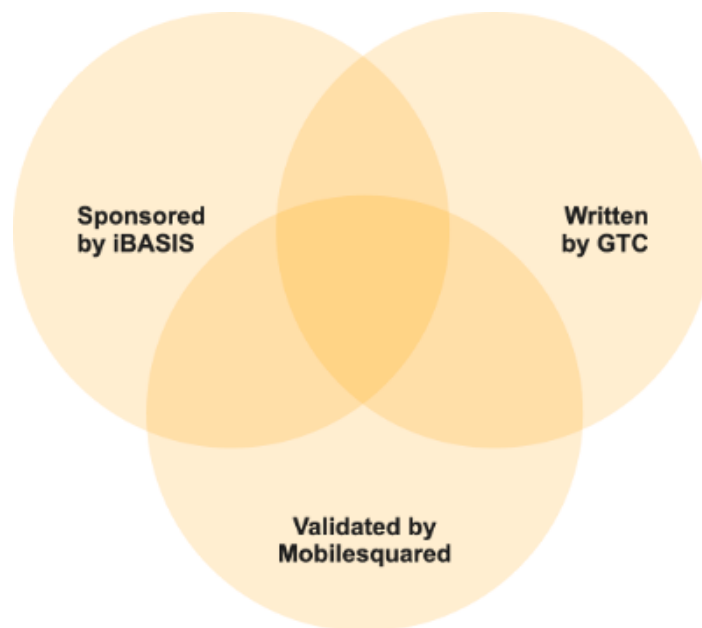
Demand for slick authentication and other Network APIs opens several avenues that operators could explore to create more secure messaging propositions – addressing the doubts cast by competitors and industry media about the security of the SMS channel. Meanwhile, restoring reasonable SMS pricing (and reducing the unpredictability of price changes where possible) might be rewarded with redoubled demand from enterprises.

Some A2P traffic has already migrated to OTT alternatives. Other kinds of traffic, certain Marketing use cases for example, have been put on hold since prices became prohibitive for anything but business-critical messaging. OTTs themselves have shared that they would like to use SMS more to roll out additional authentication and explore new use cases across their services. So, should the pricing barriers to entry be rolled back, Operators could still *help* SMS to kickstart a new cycle of success.





# ABOUT US



## **Sponsored by iBASIS**

iBASIS is a leading communications solutions provider enabling operators and digital players worldwide to perform and transform. As long-time partners of GTC, they approached us with open-ended questions on the evolving market trends of A2P SMS, the emergence of alternatives to SMS and the impact of OTTs in messaging. Together, we agreed there was an opportunity to explore current market dynamics in a whitepaper format that could inform and stimulate strategic conversations among all SMS stakeholders going forward.

## **Written by GTC**

Global Telco Consult GmbH (GTC) is an independent and trusted A2P business messaging consultancy with deep knowledge and experience in launching, optimising, and accelerating messaging services and strategies. GTC provides tailor-made messaging strategies to enterprises, messaging service providers, operators, and voice carriers via unbiased consultancy, managed services, and revenue assurance offerings.

## **Validated by Mobilesquared**

Mobilesquared has spoken directly to hundreds of companies in the messaging space to gather and consolidate forecasts on volumes, revenues, and channel growth. We've used their Global A2P SMS Report 2017-2027 to add context and quantitative examples where relevant.

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