Emerging market value added services – a rare ray of light in the mobile industry

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Through direct conversations, and project work with hundreds of stakeholders in the emerging markets mobile value-added services (mVAS) space, Solon has observed three key trends that will continue to drive growth in mVAS: (1) despite predictions to the contrary, mVAS continues to flourish, (2) the mVAS value chain allows MNOs a final throw of the die to take part in the app ecosystem, and (3) a new “VAS 2.0” ecosystem is developing to serve smartphone users.

Introduction

Through our engagements in strategic and M&A assignments in the mobile value-added services (mVAS) space across emerging markets we have spoken to over 100 mVAS operator CEOs, mobile operator (MNO) VAS directors, as well as financial intermediaries and investors looking into this space.

Direct conversations with these key stakeholders have led us to observe a number of trends that will continue to drive growth in mVAS. In this paper, we outline these trends, and compare key differences in the development of mVAS between emerging and high-income markets.

Key trends in mVAS

1. The strange resilience of mVAS

Traditionally, VAS has involved users subscribing (wittingly or otherwise) to premium SMS services which include lotteries, horoscopes, and other forms of low-value content. As
smartphones will eventually become the dominant mobile device in emerging markets (by 2020, 70% of connections will be smartphones in South America and 57% in Africa), analysts have long forecasted the death of traditional VAS revenues. Solon’s experience in these markets indicates that this does not appear to be the case. Among the VAS companies we have spoken with, most show strong continued organic growth in SMS-based revenues driven by growing penetration and ability to drive engagement. VAS directors within emerging market MNOs support this trend, arguing that VAS provides a stream of purely incremental revenue that they continue to pursue (benchmarks suggest the VAS revenue upside to be 2% of total mobile revenues, of which only 1% is realised as EBITDA as mVAS operators usually take half of the revenues they help generate). Two factors explain this surprising growth:

- Success by mVAS operators at driving subscription take-up: they have become conversion machines; optimising the time of message delivery, customer segments, message wording and channels used to maximise conversion
- A shift in focus from content VAS to brand engagement and marketing activities: VAS providers with a strong regional focus are uniquely positioned to drive engagement with locally targeted offers (e.g. coupons), which international brands cannot develop on their own on a global scale. Even smaller local players can carve out a country-specific niche and it is not uncommon for VAS players to serve all of the major MNO competitors in a particular region, with local expertise as the USP allowing them to defend their position and dominate a local market.

2. The mVAS value chain is being reshuffled

Although SMS-based VAS is still growing steadily, VAS providers and MNOs are already looking to smartphone-based applications as the next iteration of the VAS ecosystem. This is driving opportunities for new players (e.g. Bemobi, which was sold to Opera, and FS VAS) while creating an imperative to innovate for established operators. These new operators are pioneering the distribution of apps including games and utilities to users, based on subscription services.

Particularly in emerging markets, all participants have an interest in the success of this ecosystem:

- Content providers (e.g. game developers) can gain access to a new distribution channel not controlled by Google or Apple (but with similar reach and better conversion probabilities)
- MNOs have the opportunity to leverage their unique payment and distribution platforms to generate incremental revenue. This is their only chance to take a share of the app economy (except for data usage charges, they are cut-out of other app store revenues)
- mVAS operators have an opportunity to act as content distributors, sharing incremental revenue with MNOs and content publishers. Operators bring exceptional discipline to the table in driving subscription conversion
- Consumers gain access to content which they would be unlikely to otherwise seek out
As a result of this re-shuffling of the ecosystem, the role of the VAS aggregator is changing from content aggregator to driver of conversion and digital engagement with smartphone applications.

3. A new “VAS 2.0” ecosystem is developing

In the traditional VAS ecosystem, MNOs and their VAS partners controlled which content was pushed to end-users, and MNOs maintained the billing relationship. In a smartphone ecosystem, the platform is controlled by other parties, typically the OS developer, app store owners, app developers or OEMs. A new cohort of operators (see Figure 1) has emerged to facilitate new value-added services for these parties:

- **App marketing** – given the competition among content providers, new companies have emerged that aim to help app providers recruit users and stand out in a crowded landscape. These “app marketers,” including companies like Apps Flyer or Tapstream, specialize in using data analytics to efficiently target users, promoting downloads or in-app purchases to the most promising targets using mobile or in-app advertising.

- **Pre-install** – another set of companies (operators like Digital Turbine and SweetLabs) works with OEMs or hardware retailers to get certain apps “pre-installed” on smartphones so that they are included on the device out of the box. Other pre-install services include updating and changing apps “over-the-air” without end-user interaction after the phone has been provisioned.

- **Carrier billing** – billing is another potential challenge for smartphone app purchases, as they typically require a credit card and bank account to process the transactions. In emerging markets with significant unbanked populations, direct carrier billing has emerged as a means of leveraging MNOs’ billing relationships to enable app-based purchases. Companies like Fortumo and Boku work with MNOs to set up direct carrier billing options within app ecosystems. This expands the size of the total market to include unbanked users, but also returns some power to the hands of MNOs, whose billing relationships are largely irrelevant for app store purchases in high-income countries.

![FIGURE 1: VAS 2.0 providers](image)
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